

Payment-Behavior Indicator to Help At-Risk Borrowers

Freddie Mac and the Mortgage Guaranty Insurance Corp. (MGIC) have teamed up to create a predictive default-management tool designed to bring greater consistency to the mortgage-servicing industry while helping to keep more borrowers in their homes.

Freddie Mac and Milwaukee-based MGIC, the nation's largest private mortgage insurer, are attempting through this alliance to re-engineer delinquency management and to set the industry standard for predicting mortgage loan defaults. The new product, called EarlyIndicatorSM, combines the behavior and loss-mitigation models of Freddie Mac's PaymentProspectorSM with the Loss Mitigation ScoreTM developed by MGIC.

The payment-behavior model enables servicers to better direct their resources and attention to those borrowers most in need of counseling and workout options to avoid

foreclosure. EarlyIndicator allows servicers to rank loans in all stages of delinquency—from as early as 16 days to as late as 120 days—based on the probability of a borrower reaching foreclosure. With this information, servicers can intervene earlier to assist borrowers most at risk of foreclosure, diverting staff resources and money away from borrowers most likely to bring their loans current on their own. This redeployment of resources also may help servicers reduce collection costs.

The three largest mortgage servicers in the country—Norwest, Countrywide Funding, and Chase Manhattan Mortgage—are among those companies that have agreed to integrate EarlyIndicator into their operations.

Correction

The delinquency rates used in the graph accompanying the December 1996 article "Business as Usual: Foreclosure Work Remains Vital," should have been labeled as decimals instead of as whole numbers.

Administration Seeks FHA Parity with Conforming Limits

A Clinton administration proposal would raise the maximum mortgage amount that can qualify for Federal Housing Administration (FHA) insurance to equal the limit applicable to loans sold to Freddie Mac and Fannie Mae.

The proposed change, offered as part of the President's fiscal 1998 budget, would raise the FHA limits nationwide to the same mortgage ceiling in effect for Freddie Mac. Under current law, an FHA mortgage on a one-family property may not exceed 75 percent of Freddie Mac's loan limit. Presently, the FHA's loan ceiling is \$160,950 in relation to Freddie Mac's \$214,600. FHA limits are lower in some counties with lower area median house prices.

Freddie Mac's loan limits are tied, by law, to a survey of house prices conducted by the Federal Housing Finance Board (FHFB). The survey measures changes in national house prices based on a sample of conventional home-purchase closings.

Each year, Freddie Mac sets its loan limits according to the October-to-October percentage increase in prices reported by the FHFB.

Although home prices for the 12 months ending in October 1996 rose 8.4 percent, Freddie Mac and Fannie Mae increased their loan limits by only 3.7 percent to account for declines in the index that occurred between October 1992 and October 1994. The loan limits for one-, two-, three- and four-family properties in the continental U.S. rose accordingly (*Exhibit 2*). The limits are 50 percent higher in Alaska, Guam, Hawaii and the U.S. Virgin Islands.

EXHIBIT 2: 1997 Loan Limits

	FHA Actual (High-Cost Areas)	Freddie Mac Actual/ FHA proposed*
One-Family	\$160,950	\$214,600
Two-Family	\$205,912	\$274,550
Three-Family	\$248,887	\$331,850
Four-Family	\$309,337	\$412,450

*Proposed FHA loan limit, if retroactive to 1997, would equal the Freddie Mac limit.

Source: Freddie Mac