



Genworth®
Financial

Use Of MI In Developed Mortgage Markets

Sacha Polverini

Managing Director

Government & Regulatory Affairs – Europe

Agenda

- Introduction To Genworth Financial
- Mortgage Insurance
- Drivers For Mortgage & MI Growth In Developed Markets
- Drivers For Mortgage & MI Growth In Developing Markets
- Challenges For MI
- Review Of MI Role In the Global Market
- Conclusions
- Appendix

Introducing Genworth Financial

- GE Launched Genworth Financial IPO 24th May 2004 On NYSE
- Three Business Segments: MI, PPI & Retired Income
- Over 6,400 Employees Across 24 Countries Serving 15 Million Customers
- \$105BN Assets, \$10.5BN Revenues, \$1.2BN Net Income (2005)

Mortgage Insurance

- \$350BN+ MI Risk Worldwide
- 20+ Years Experience... Tested in Downturns
- Dedicated In-Region Resources
- Present In 9 European Countries, Plus Asia, The US, Canada, Australia & New Zealand
- Largest Provider Of MI Outside Of The US*

**Source: Inside Mortgage Finance*

Genworth Financial Committed To Long-Term Partnership

- Genworth Financial MIE Is A Monoline Supplier With A Proven Track Record
- We Have A High Financial Strength Rating... AA (S&P, Fitch), Aa2 (Moody's)
- Genworth Supports You By Offering Global High LTV Risk Management Expertise
- We Source Global Solutions To Help Lenders Grow Their High LTV Mortgage Portfolio

Global Expertise With Multi-Market Operating Presence

International Presence



What Is Mortgage Insurance?

What Is MI?

- **Protects Lenders / Investors From Borrower Default on Residential Mortgages. MI Providers Deal Directly With Lenders, Not Borrowers**
- **Makes Home Ownership Possible With Low Down Payment, Replacing Borrower's Add'l Securities & Administration Cost For Lenders**
- **Generally Used When Loan-To-Value >75-80%**

What Is It Not?

- **Is NOT Mortgage Life Insurance... Form Of Life Insurance Which Pays Off Loan Amount In Event Of Borrower's Death**
- **Is NOT Payment Protection Insurance... Form Of Credit Insurance Which Provides Directed Income Support In Event Of Borrower's Involuntary Unemployment Or Disability**

Recognized & Used In Many Countries... Key Component Of Home Ownership Equation

Public Facilities

Belgium	Hong Kong
Canada	Netherlands
Estonia	Latvia
Finland	Lithuania
France	Slovenia
Kazakhstan	United States

Private Facilities

Australia	Israel	Spain
Belgium	Italy	Sweden
Canada	New Zealand	United Kingdom
France	Poland	United States
Germany	Portugal	Mexico
Ireland	South Africa	

MI Is Trusted By Lenders & Regulators As A Reliable Partner For HLTV Lending

HTLV Lending Entails A Greater Risk

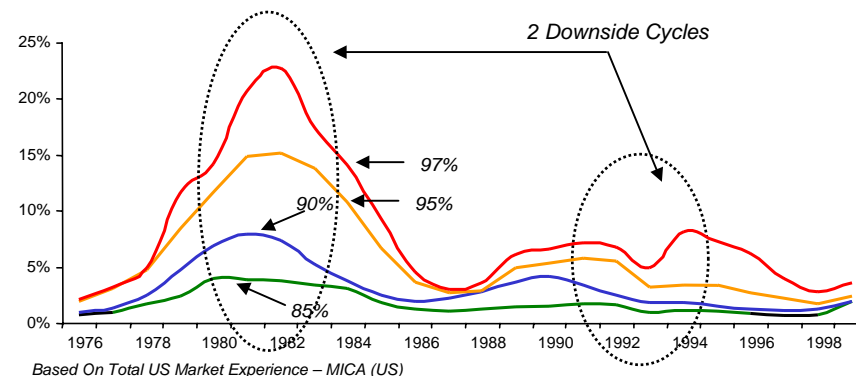
Historical Experience

HLTV Loans More Volatile When Market Turns:

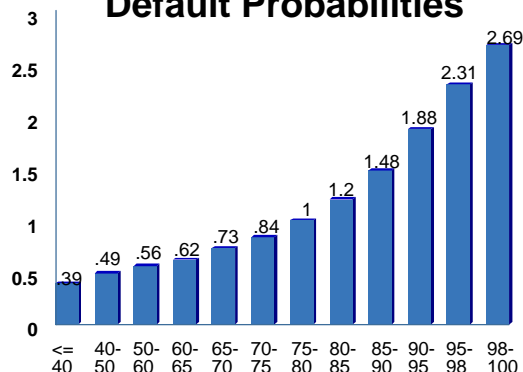
- Loss Frequency Experience Significantly Higher In Recession
- Books Written Pre-Recession Still Experience Increased Losses
- Combination of Higher LTV's & Deteriorating Economic Factors Increase Probability of Default

LTV Performance Over Two Down-Cycles

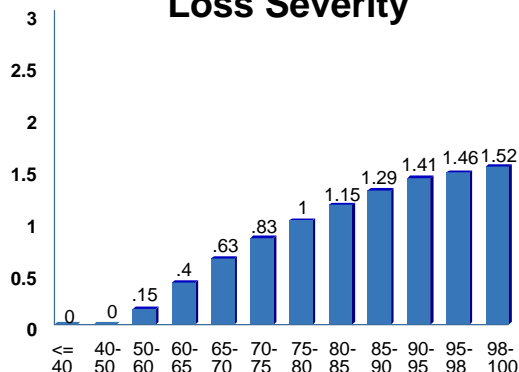
Projected Ultimate Default Rate



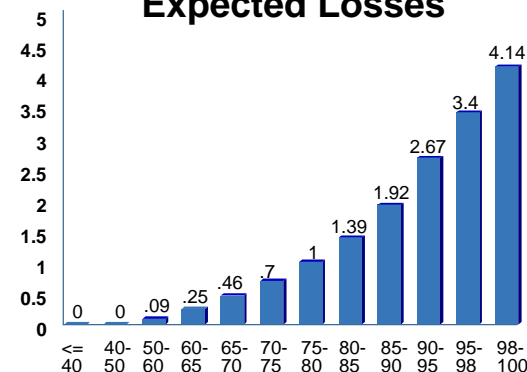
Default Probabilities



Loss Severity

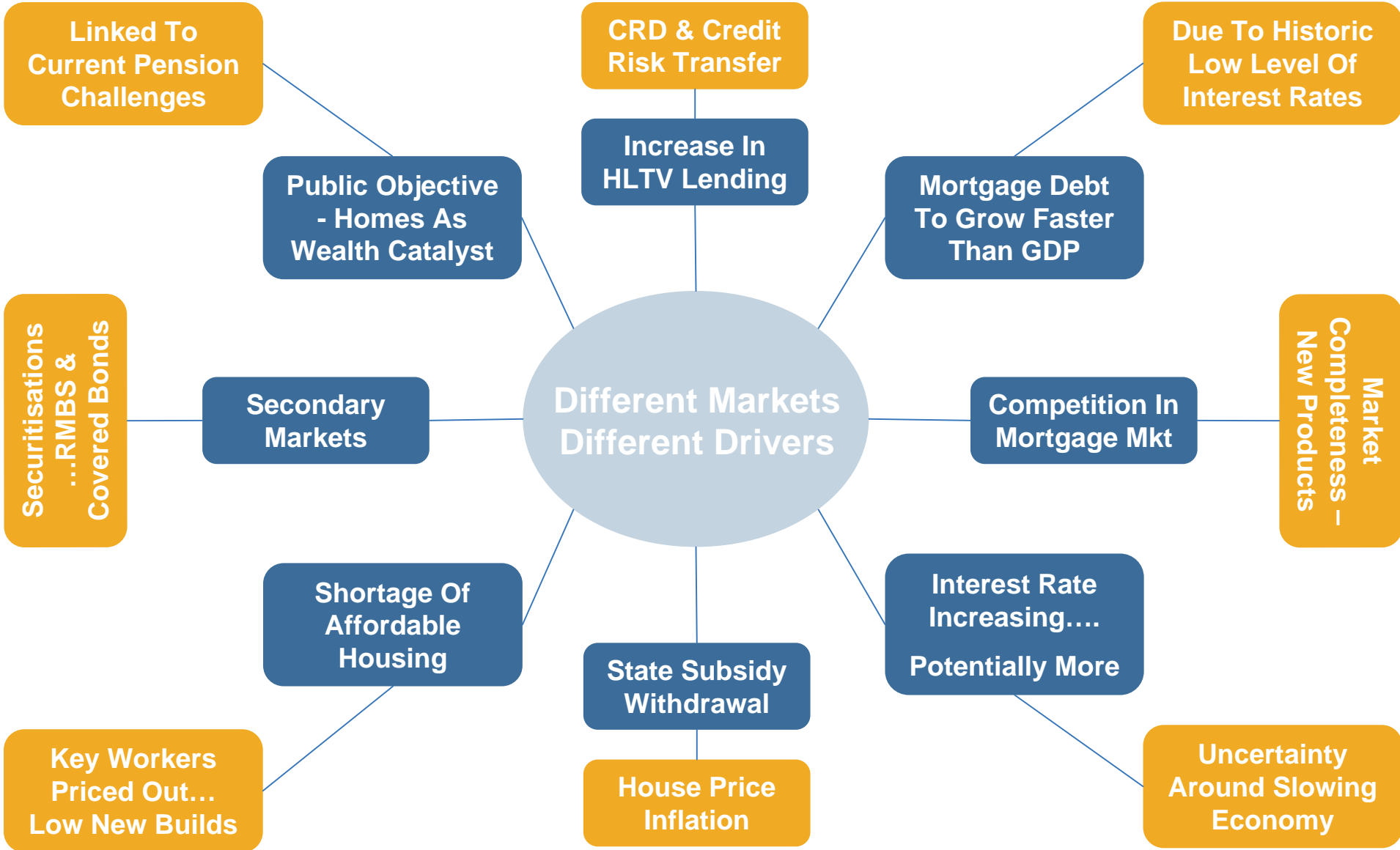


Expected Losses



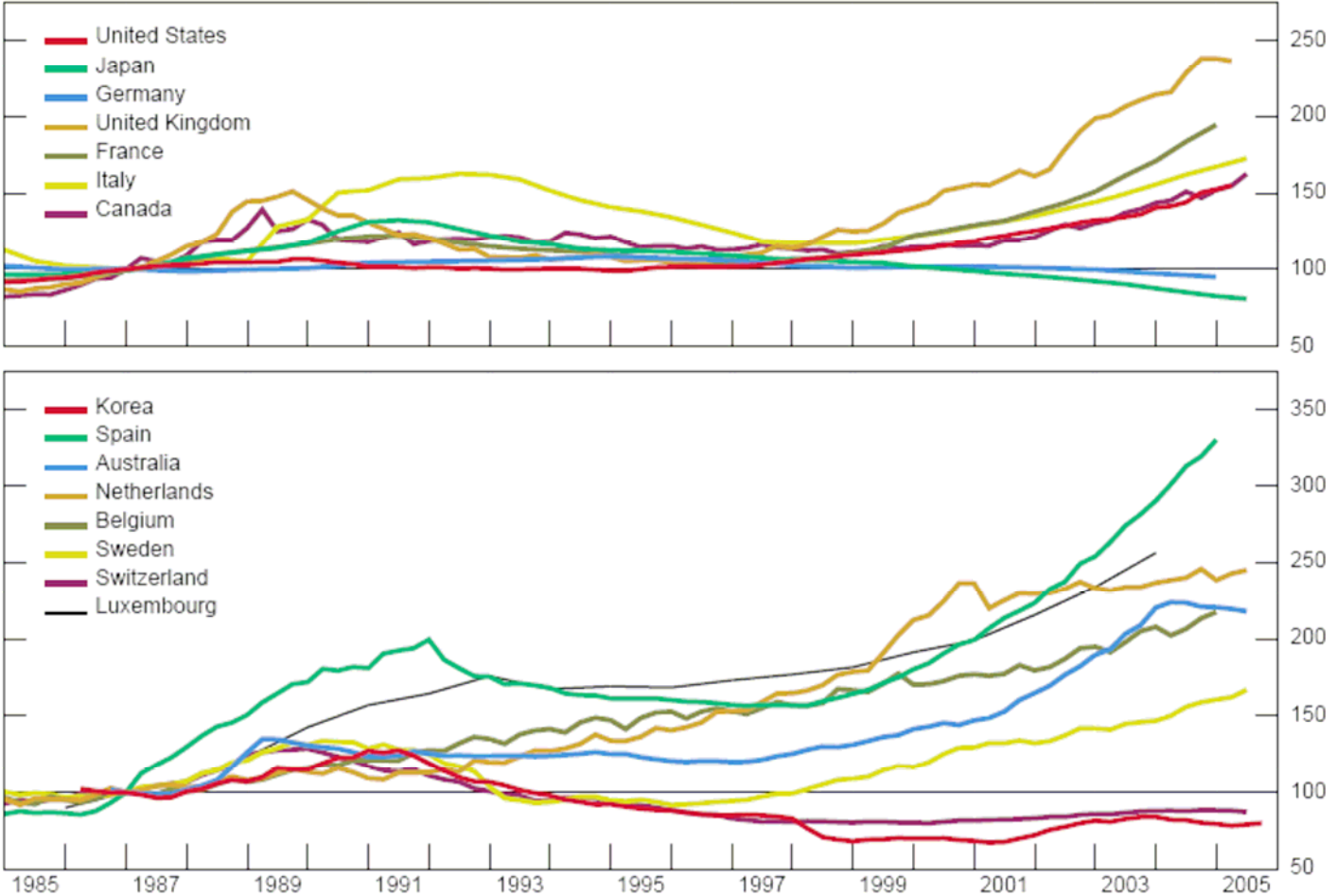
MI Helps Lenders Tackle the Increased Volatility Risk of High LTV Loans

Growth Drivers For Mortgage/MI In Developed Mkts



Real Residential Property Prices: End 1986 = 100

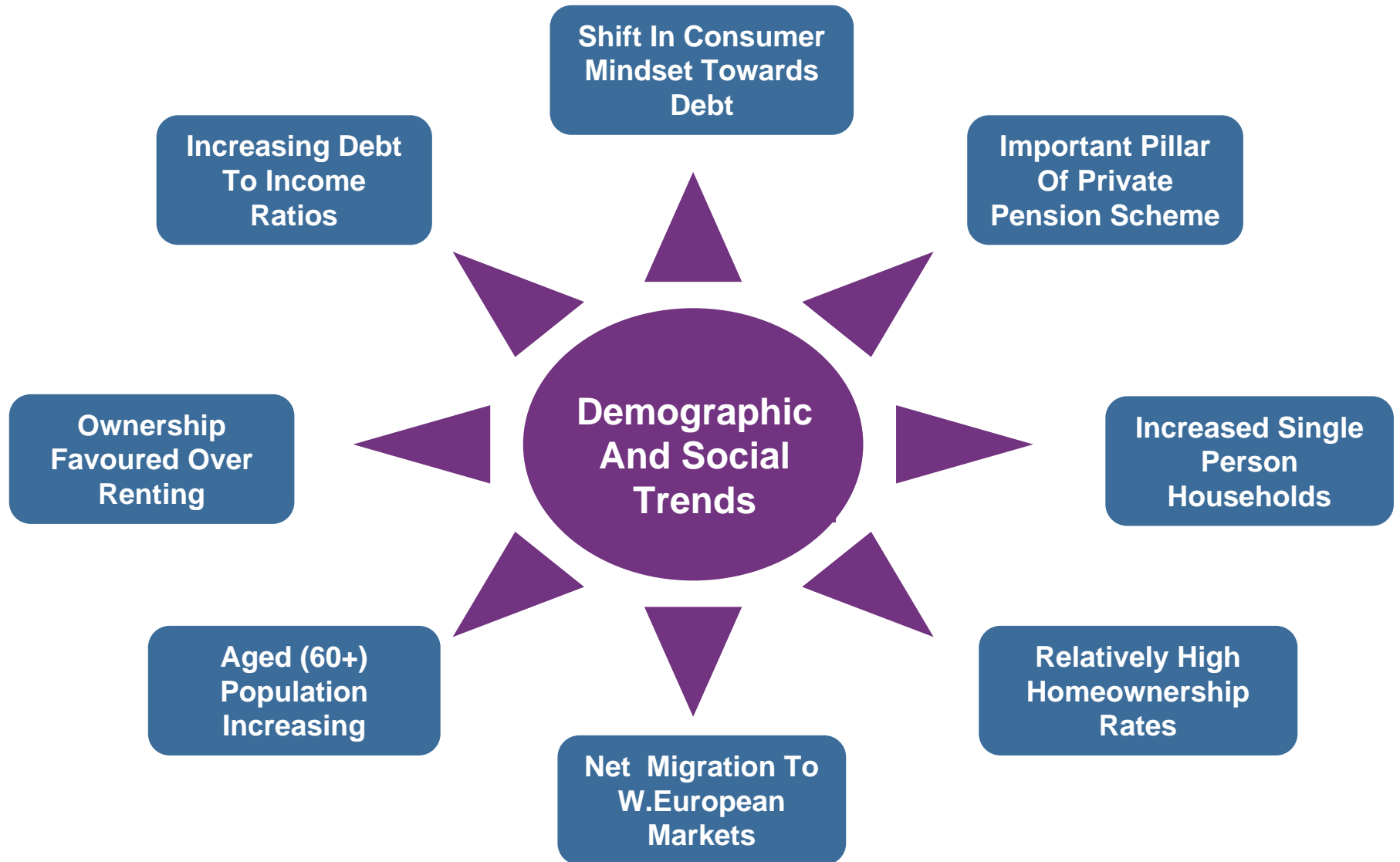
End-1986 = 100



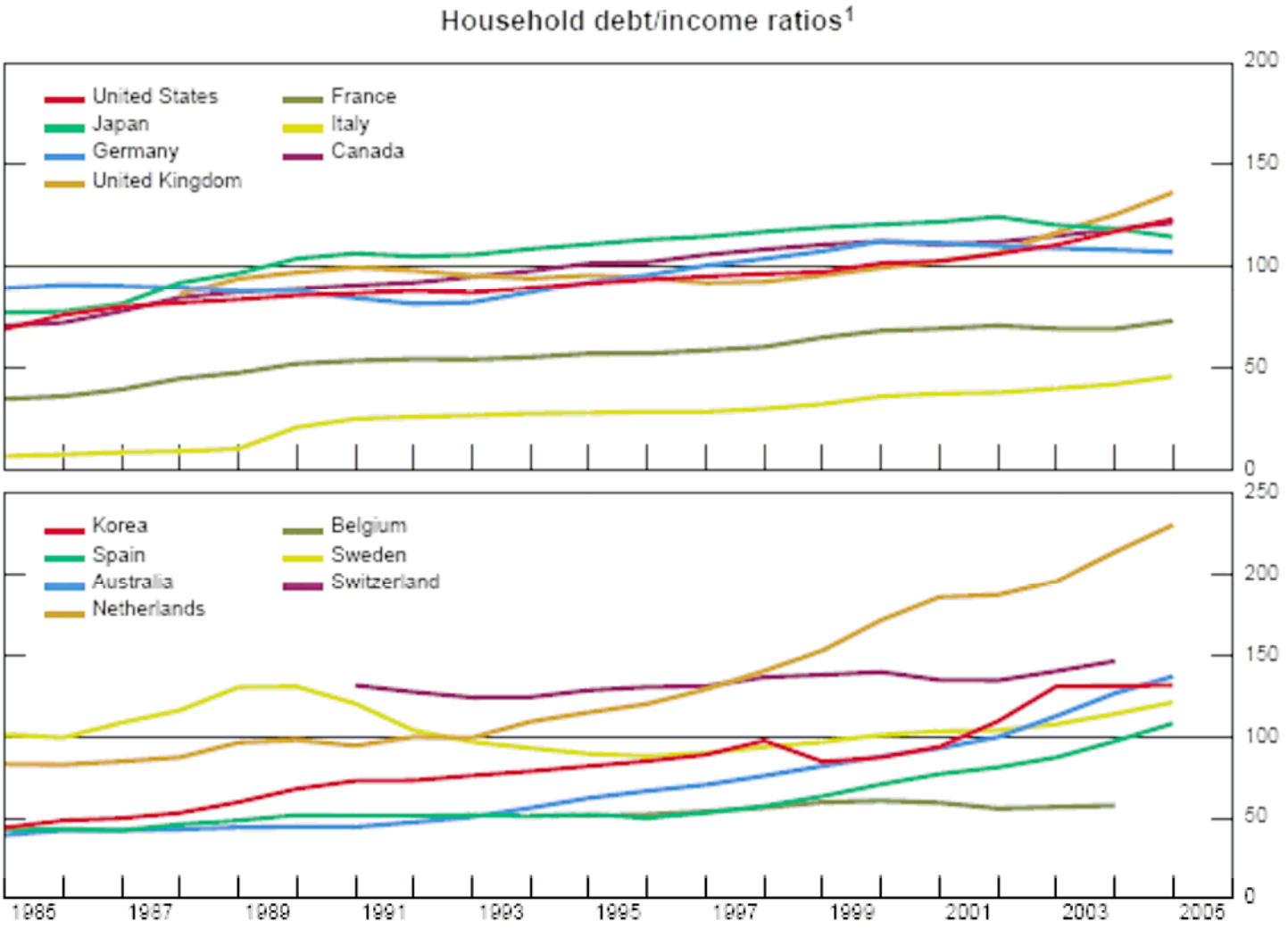
¹ Nominal property (for Japan, land) prices less the personal consumption deflator (for Korea, consumer price inflation).

Source: National data and definitions.

Drivers For Mortgage/MI Growth In Developed Markets



Household Debt/Income Ratios¹



¹ Household debt as a percentage of household disposable income.

Source: National data.

Growth Drivers For Mortgage/MI In Developing Markets

Drivers For Mortgage And MI Growth

- **Economic Growth and Stability**
- **Mortgage Debt Forecast To Grow Faster Than GDP Across SEE**
- **Regulatory Framework (Treatment Of Mortgages, LTV Limits, Legal Certainty Etc.)**
- **Role of the Government (Public Guarantee, Use Of Subsidies)**
- **Competition In The Mortgage Market**
- **House Price Inflation**
- **CRD/Basel II**
- **Foreign Assistance**

Demographic & Social Trends

- **Higher % Of Homeowners Unsatisfied With Own Accommodation**
 - Changes In Housing Preferences:
Need For Larger Houses/Dwellings
Plus Refurbishment Existing Stock
- **Increased Wealth Leads To Better Living Standards**
 - Increased Disposable Income
 - Increased Housing Affordability Issues
- **Increased Pressure On The Major Urban Centres From The Rural Areas**
- **Increased Familiarity With FS System And Banking Services**

Challenges For MI

	Legal	State	Mortgage Mkt	Economic
Developed Markets	<ul style="list-style-type: none"> • Obsolete Regulatory Framework • Regulation On MI & CRMs 	<ul style="list-style-type: none"> • Public Guarantee Schemes • Consumer Over-Indebtedness 	<ul style="list-style-type: none"> • Alternative Products • Lender Culture & Strategy • High Transaction Costs 	<ul style="list-style-type: none"> • Benign Economic Environment • Limited Labour Mobility
Developing Markets	<ul style="list-style-type: none"> • Legal & Regulatory Framework For MI • Foreclosure Procedures • Valuation Standards • Title 	<ul style="list-style-type: none"> • Fitting In With Housing Policy • Public Guarantee Schemes... Use Of Subsidies 	<ul style="list-style-type: none"> • Lack Of Experience • Lack Of Data • Poor U/W Practices • High Transaction Costs 	<ul style="list-style-type: none"> • Uncertain Economic Environment... State Of Flux

Low Level Of Knowledge Of MI

Global Role

Private Mortgage Insurance Plays An Important Role In The World's Largest And Most Efficient Mortgage Markets...

Private MI Brings Capital, Credit Expertise, Diversification & Underwriting Discipline

- 
- Organized As Monoline Companies
 - AA Minimum Capital
 - Diversification of Risk
 - Private Capital Discipline
 - Increased Home Ownership on Better Terms
 - Safety Net For Lending Institutions
 - Improved Lender & Borrower Liquidity
 - State Of Art Risk Management Techniques
 - Replaces Use Of Personal Guarantors or More Expensive Secondary Financing
 - Focused Expertise
 - Absence Of Unrelated Exposures
 - Capital Maintained In Direct Correlation With Risk
 - Ability To Pay Claims In Severe Economic Stress
 - Better Risk Dispersion Over Geography, Lenders, Products and Time
 - Disciplined Approach To Underwriting And Risk Taking
 - Profit Motive Encourages Growth ... But Not Relaxation Of Standards

MI Is A Tool To Encourage Lenders to Fulfill Housing Policy... At No Cost To The Government And Without Increasing Financial System Risk

HLTV Lending Offers Material Growth Opportunity

Product Developed In Spain Fundamentally Changed The Market...

Mortgages >80% LTV Required Personal Guarantee... Unsatisfactory For All Stakeholders:

Lenders:

- Faced With Declining Numbers Of Guarantees
- Ineffective Credit Risk Mitigant: Transfers Risk From One Individual To Another

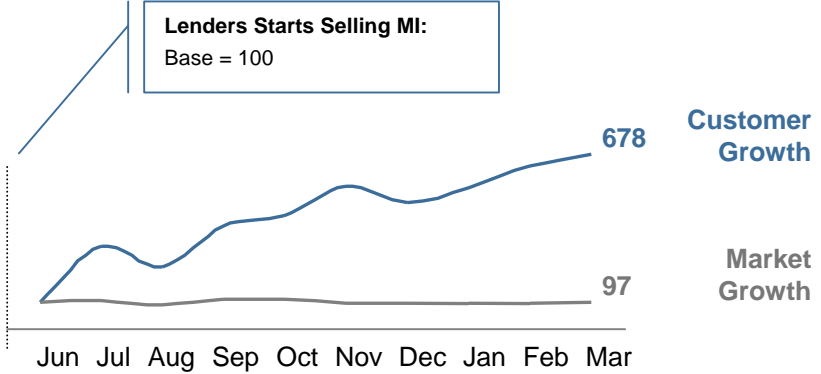
Borrowers:

- Obligated To Place Family At Financial Risk, Or
- Find Sizeable Down-Payment In Appreciating Mkt

... And Dramatically Increased Volumes For Lenders

GNW's MI Product Offered A Viable Alternative To Both Borrowers & Lenders:

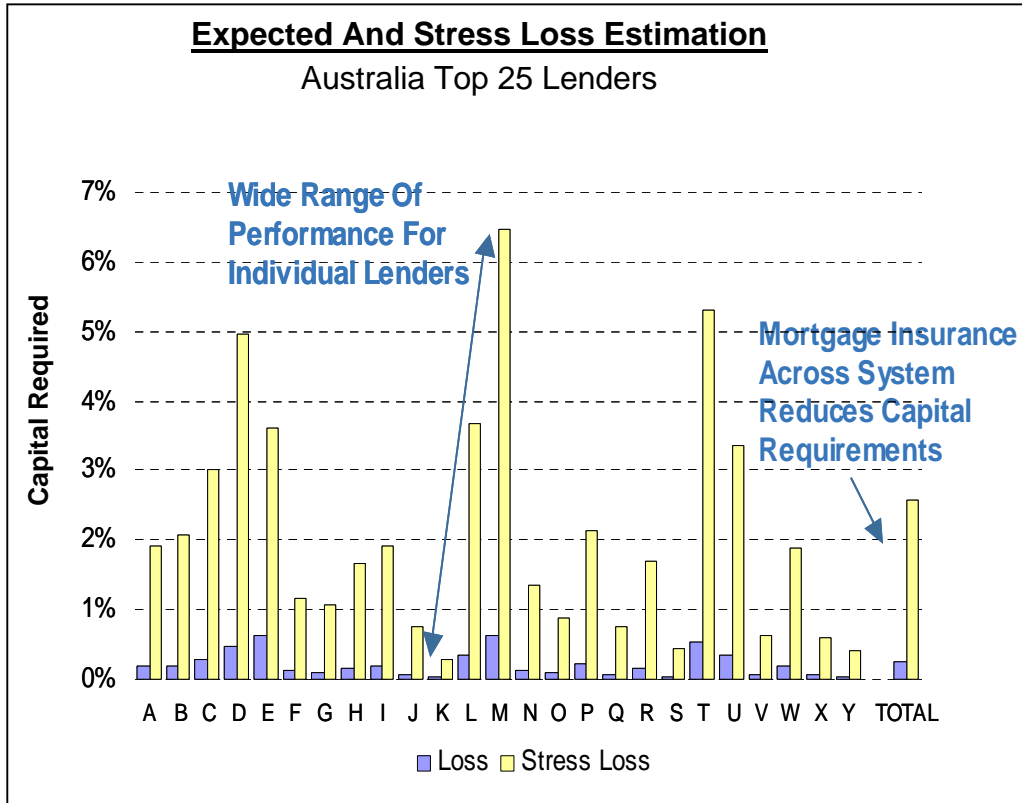
- Consumers See Cost- Benefit Of MI Fee
- Premium Can Be Capitalized In Loan... More Economically Attractive
- Actively Working With Regulators To Achieve Capital Relief



Realised Lender Growth & Borrower Earlier Access To Homeownership

Mortgage Insurance Risk Dispersion Benefits

Key Observations



Not All Lenders Perform The Same...

MI Spreads Risks Across Geography, Lenders, Time And Origination and Servicing Systems

Without A Diversification Tool, Prudent Bank Capital Should Be Adequate For All Lenders' Experience

(2.5% MI Capital = 5% + Lender Capital)

Mortgage Insurance Pools Capital, Across Multiple Lenders To Cover All Losses... Fungible Capital

MI Provides Diversification Benefits Across Financial System... Benefits Pass On To Consumers In Lower Borrowing Costs

Ensure Reliability Of Payment

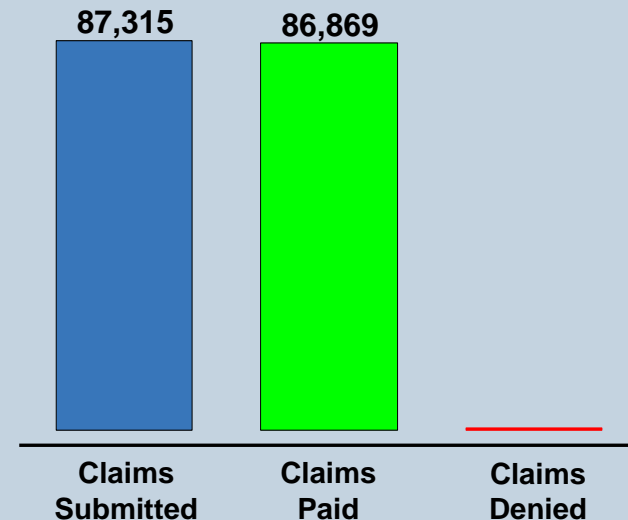
Rated Mortgage Insurance Accepted By Capital Markets And Bank Regulators As A Highly Reliable Credit Risk Protection

The Case For Utilizing Highly Rated, Monoline Mortgage Insurance Is Supported By ...

- **Historical Experience In Economic Downturns** – In The 1990s, GWF Paid Losses Exceeding \$3Bn With Minor (less than 1%) Claim Denials In The US; General Industry Pay-Out was \$16+ Bn, Saving Bank Capital Funds A Substantial Amount Of Money; Consistent Record of Prompt Payment
- **Monoline Form And Corporate Reputation** – Unlike A Multi-Line Insurer, Mortgage Insurance Is Our Core Business ... Benefits of Monoline Structure Recognized by Rating Agencies
- **Independent Oversight By Three Rating Agencies** – Rating Reflects Ability To Pay Claims; and Reflects Management Strength And Market Position

Genworth Global Claims Payment Record

1995 to 2005



Claims Paid % = 99.49%

**Requires Strong Capital And Reserving Regulations
And Limits On Business Practices, E.g. US Model MI Act**

Mortgage Guarantors Motivated to Be Loss Mitigation Innovators

Repayment Plans (Cure)

- Lender Accepts Scheduled Payments to Reduce Delinquency

Forbearances (Cure)

- Delays Foreclosure Action
- Arrearage Paid Within Specified Time

Modifications (Cure)

- One or More Terms of the Note Are Modified

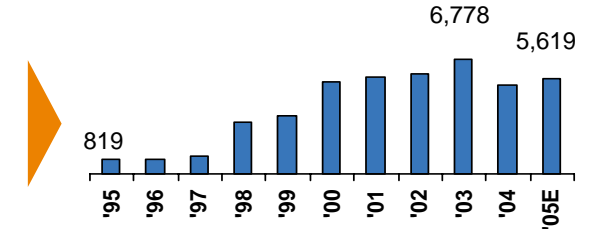
Pre-Foreclosure Sales

- Higher Sales Price of Property
- Avoids Foreclosure Expenses and Lessens Impact on Borrower Credit

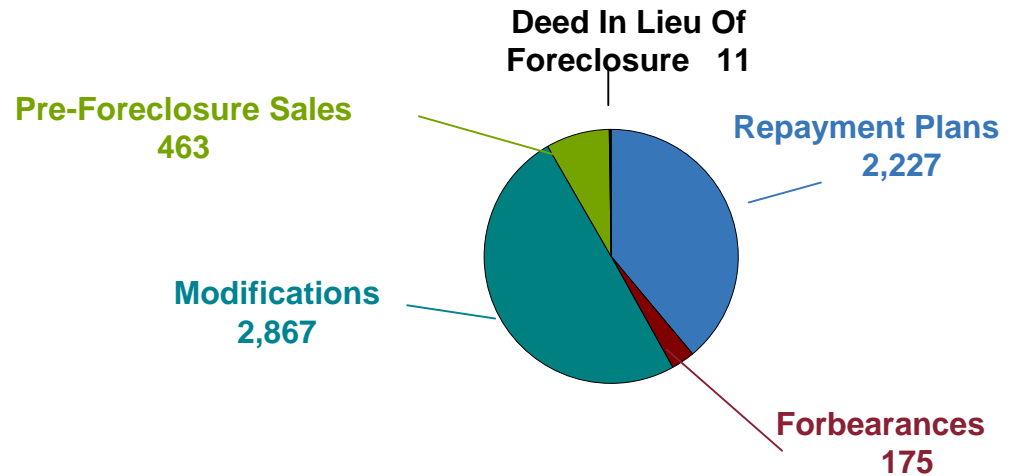
Deed In Lieu Of Foreclosure

- Avoids Lengthy Foreclosure Interest and Expenses

GNW Has Helped 44,000 Families Keep Their Home In Past 10 Years



In 2004 GNW Completed 5,743 Workouts Done In U.S. Alone Prior to Foreclosure Sale, As Follows:



MI Loss Mitigation Practices Benefits All Parties, And Keeps Many Borrowers In Their Home

Conclusions

Presence of Mortgage Insurance Provides Many Benefits:

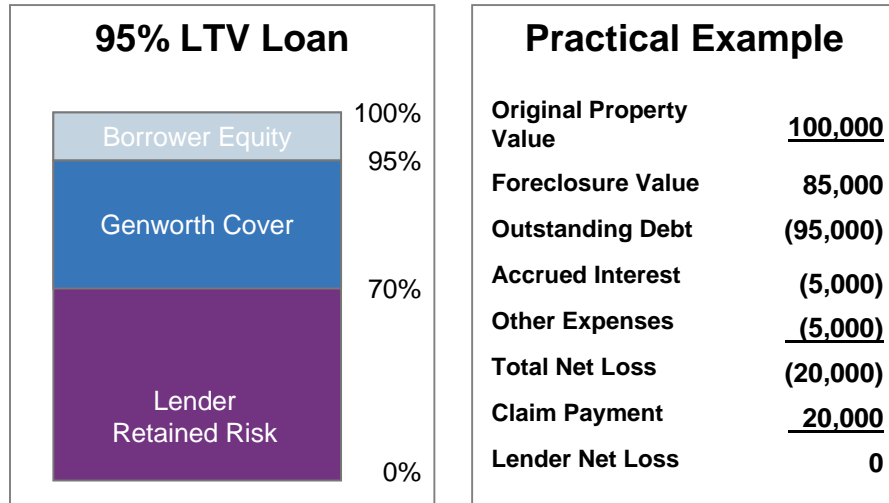
- ✓ True Risk Transfer Outside Banking System To Qualified Third Party Expert... For Highest Risk Mortgage Loans
- ✓ Mortgage Insurers Serve As A Second Pair Of Eyes On Lender's Controls And Processes... Improves Overall Reliability In System
- ✓ Mortgage Insurance Influence And Tools Help Mortgage Portfolios Perform Better... Lowers Overall Default Performance in Loan Portfolios Due To Improved Underwrite
- ✓ Mortgage Insurance Improves Mortgage Portfolio Quality and Improves Overall Salability... Vital For Capital Market Development
- ✓ Mortgage Insurance Lessen the Impact of a Stress Scenario (on Individuals, Communities and for Loan Portfolios)
- ✓ Mortgage Insurance Helps Grow Overall Mortgage Market By Stimulating New Products
- ✓ Mortgage Insurance Helps Individuals Own A Home Sooner Due To Lower Down Payment Requirements
- ✓ Mortgage Insurers Are Incented To Avoid Foreclosures Whenever Feasible
- ✓ Mortgage Insurer's Loss Mitigation Techniques Lessen Adverse Impact on Borrowers... Helps Keep More People in Their Home During Periods Of Economic Stress
- ✓ Loss Sharing Ultimately Lowers Borrowing Costs For Consumers

Mortgage Insurance Helps Lenders, Investors, Borrowers... Provides Additional Integrity In Mortgage Lending System

Appendix

How Mortgage Insurance Works

Product Illustration

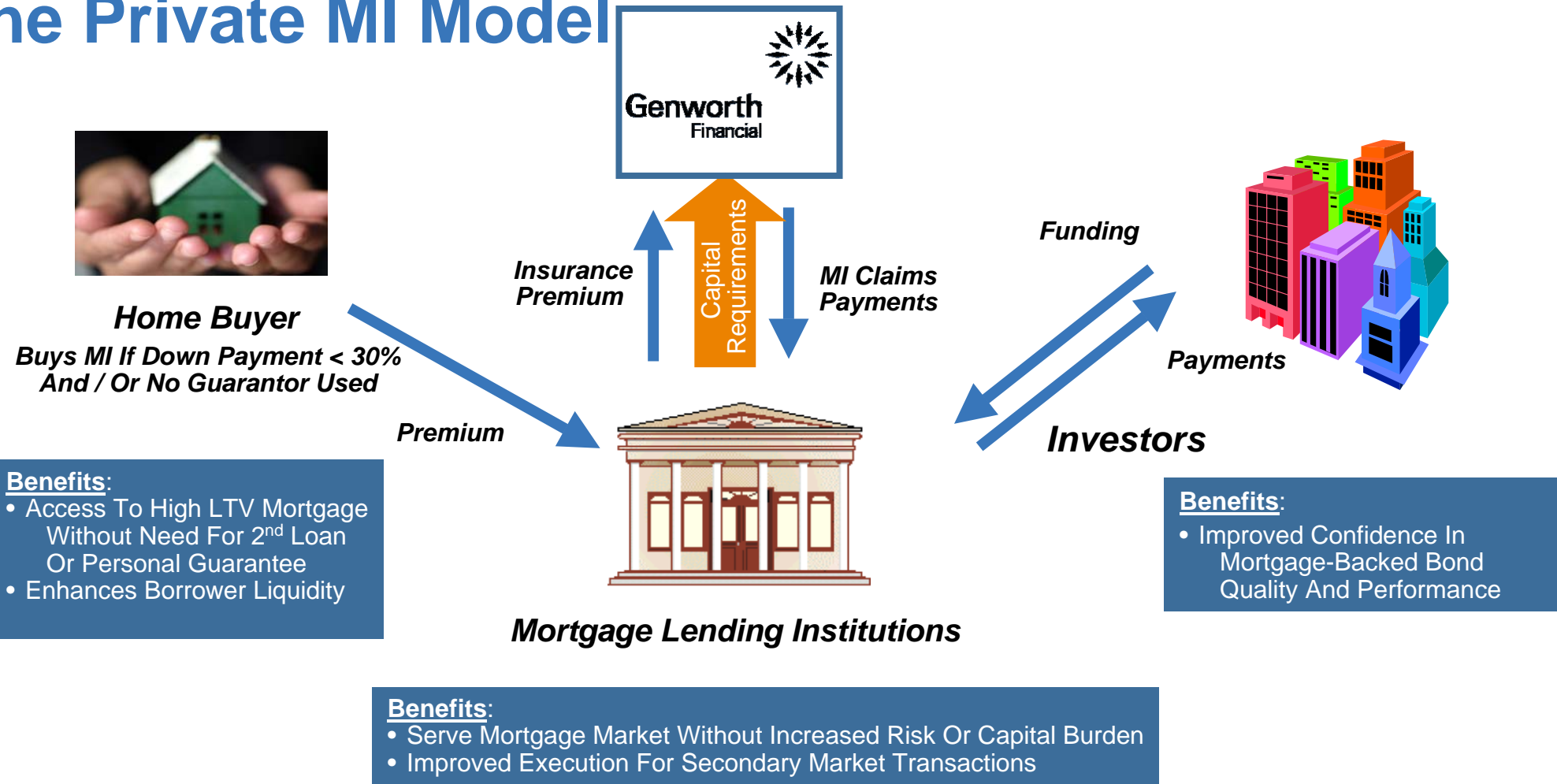


Product Benefits

- Provides 100% Cover For All Loan Amounts > 70% LTV
- Covers Losses Related To Borrower Default
- Will Reduce Regulatory Capital Requirements Under Basel II/CRD
- Insures Balance Sheet Credit Risk Prior To Securitisation
- Simple To Administer, Accepted By Regulators And Investors In Multiple Markets
- Premium Payment Options:
 - Borrower Paid
 - Through Interest Rate
 - Capitalised In Loan
 - Lender Paid... Generally In More Competitive Western Mortgage Markets

By Reducing Risk For Lenders, MI Allows Earlier Homeownership

The Private MI Model



MI Is A Tool To Encourage Lenders To Fulfill Housing Policy...Without Increasing Risk In Financial System

Master Policy

Mortgage Insurance Works Through A “Master Policy”

The Master Policy Covers General Terms and Conditions... Each Loan Is Covered Individually

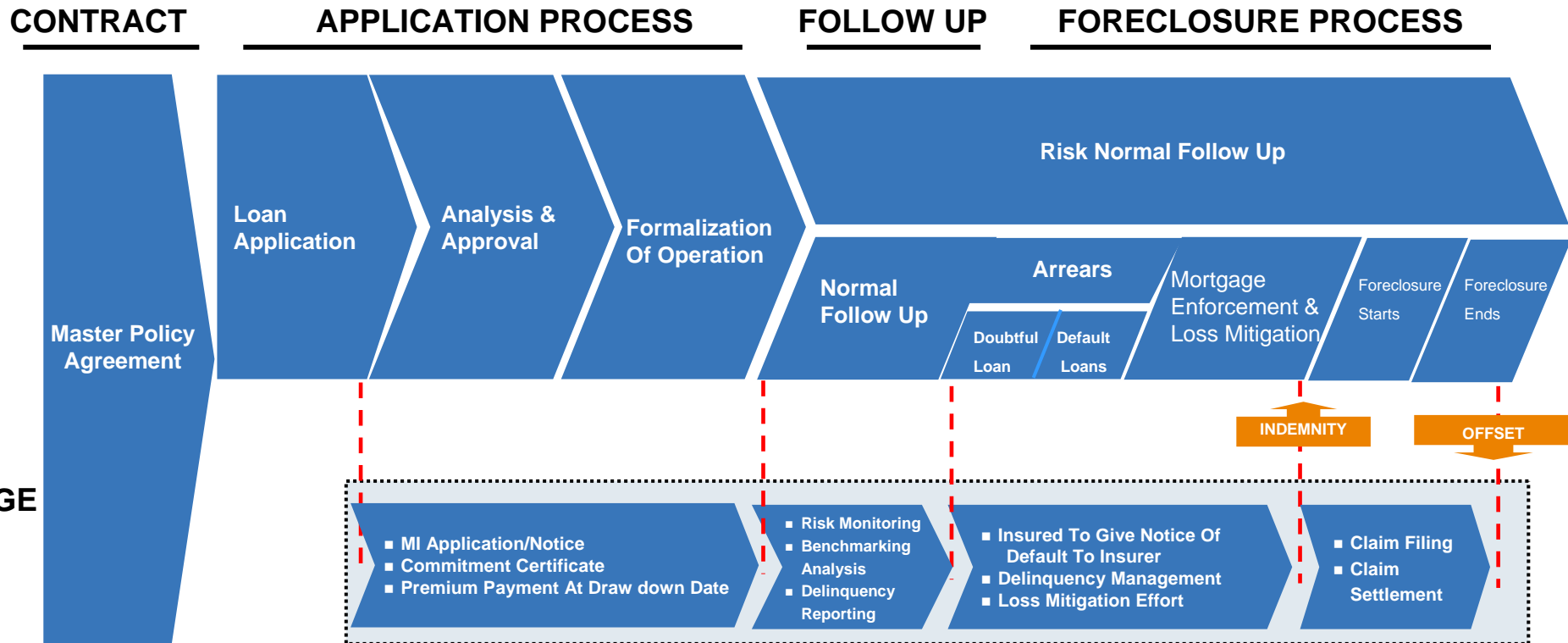
Master Policy Highlights May Include ...

- **Life Of Loan Coverage** – Credit Protection for Entire Duration of Loan
- **Coverage Scope** – Reimburses Lender For Losses On Difference In Mortgage Amount Outstanding And Value Of Property At Claim Trigger Date, Plus Related Costs And Expenses,
- **Loan Servicing and Collection Standards** – Defines Minimum Acceptable Practices
- **Timely Claim Payment** – Made Within 15-30 Days Of Valid Claim
- **Coordinated Default Management With Lender** – Joint Action To Avoid Actual Default And Minimize Ultimate Net Loss To Lender
- **Underwriting Standards**– MI Underwriting Criteria Based On Agreed Market Standards;
- **Limited Coverage Exclusions** – Exclusions Specified in Policy and Cover Risks That Cannot Be Priced Commercially (War/Nuclear Risk), and are Covered Already By Other Insurance (Property Damage), Or Involve Lender/Agent Misconduct (Fraud)

MI Administered Through Simple Master Policy; Transferable Loan-by-Loan Coverage

Mortgage Loan Process

GNW Mortgage Insurance Has A Demonstrated Record Of Applying Quality Principles And “Digitization” To Streamline Mortgage Processes, Reduce Risks & Mitigate Losses



Integration, Not Duplication, Of Functions Is Our Approach

Pricing

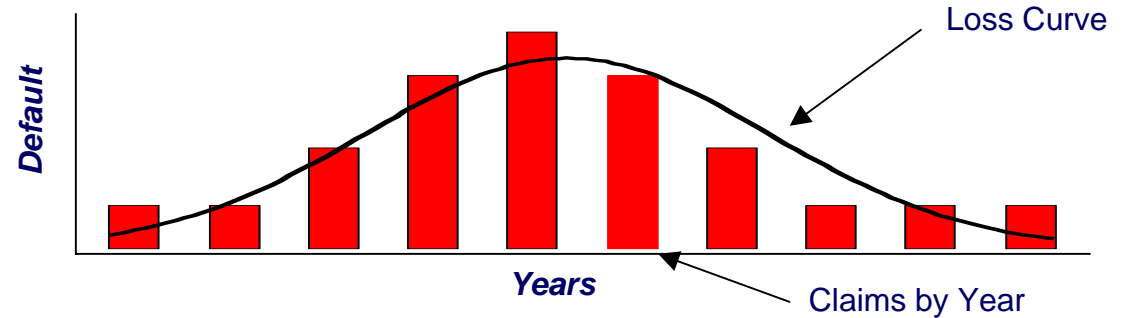
Lender Provides
Loan By Loan
Data

GNW Analyses
Data

GNW Provides
Price

Loss Assumptions

- Historic Portfolio Performance
- Economic Cycles
- Geographic Dispersion
- Lending Criteria
- Lender & Legal Process
- Depth Of Coverage
- LTV



Risk-Based Pricing

MI Premiums Generally Are Expressed In Terms Of Basis Points

- The Base Rate Is Determined By The LTV Ratio, Supplemented By Other Factors Like ...
- Where The Base Rate Is Multiplied By The Original Principal Amount Of The Loan



Mortgage Type
Occupancy Status
Employment Status
Mortgage Size
Property Type
Mortgage Documentation
Credit Scoring
Loan Purpose

Less Risk

Fixed-Rate
 Owner-Occupied
 Employee
 Average Size
 Single-Family Detached
 Standard
 High
 Purchase

More Risk

Adjustable
 Investor
 Self-Employed
 Jumbo
 Condominium
 Limited
 Low
 "Cash Out Refinance"

MI Is Priced to Reflect Mortgage Performance Over Full Economic Cycles

Legal Framework

Strong and Reliable Framework is Essential

Benefits Of Secured Lending

Lender confidence in Collateral... more willing to lend

Lower Rates... collateral protection drives lower rates... more affordable for consumers. In case of mortgage lending... drives more homeownership

Secondary Markets... creates capacity and liquidity for lenders & desirable investments for pension plans and other investors

Attracts capital... a safer investment and likely place to attract capital investments

Characteristics Of An Effective Legal System To Support Secured Lending

Private Property Rights... evidence of ownership recognized in law

Mortgage System... ability to use property as security for a loan...low transaction costs

Foreclosure/Eviction... lender's ability to repossess and dispose of security in a reasonable timeframe in the event of borrower non-performance

Transferability ... ability to sell mortgages without excess constraints

Effectiveness of Court System...ability to enforce rights and obligations in a timely and reliable manner

**For Mortgage Lending And Credit Enhancement To Flourish
Must Develop Strong Supporting Legal Framework**

Regulatory Incentives For Use of MI

Establishing A Regulatory Incentive To Use MI Is an Important Step Toward Facilitating Both Market Growth & Health

An Expert¹ Recently Noted That

“Thirty Years Of International Experience With Residential Mortgage Insurance Shows There To Be Two Proven Mechanisms Which ... Establish A Rational Incentive For Lenders To Use Mortgage Insurance...And For Mortgage Insurers To Enter New Markets:

1) Mandate The Use Of Mortgage Insurance By Regulated Lenders On All Loans That Exceed Some Defined Risk Parameter ... Like A LTV Ratio (The Canada Model)



Regulatory Recognition Of The Significant Increased Risk On The Banking Sector From High LTV Lending

2) Reduce The Amount Of Regulatory Capital That A Lender Or Investor Must Hold If The Loans Carry Mortgage Insurance.”



Shift Capital From Lender To Private MI... Consistent With Risk Diversification Goals

1] Roger Blood, “Mortgage Default Insurance: Credit Enhancement For Homeownership,” *Housing Finance Int’l* (Vol. XXI, No. 1-Sept. 2001)

Contacts

Sacha Polverini

Managing Director
Government And Regulatory Affairs – Europe

Av Des Arts 44
B – 1040 Brussels
Tel ++32.2.2136030
Fax ++32.2.5023859

sacha.polverini@genworth.com

Samir Shah

Associate Director
Market Development - EMEA

80 Strand
WC 2R 0GR
Tel. ++44207 5991535
Fax. +++44 207 599 1600

samir.shah@genworth.com

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