

Mortgage defaults at lowest level since 2005

March 20 2012, By Joy Myers

Default risk on home loans is now at its lowest level in seven years, says a professor at the University of Michigan's Ross School of Business.

Dennis Capozza, professor of finance and real estate and the Dykema Professor of Business Administration, says that under current economic conditions, investors and lenders should expect defaults on loans currently being originated to be about the same as [mortgage](#) defaults in early 2005.

Capozza's UFA Default Risk Index registered 128 during the first quarter of this year. This means that homeowners are 28 percent more likely to default on their loans than the average of [loans](#) originated in the 1990s---but still much less likely than the worst years of the [economic downturn](#) from 2006 to 2008. The peak level of 362 was set in 2007.

"Our baseline macro scenario is based on consensus expectations and has real GDP growing at 2.5 percent for the next two years and core inflation at 1.6 percent. We believe that surprises are more likely to be on the upside than the downside of this consensus," said Capozza, who is a founding principal of University Financial Associates, a risk-management firm that forecasts mortgage and consumer loan performance.

"Upside surprises for the macro scenario would reduce defaults relative to this baseline. Currently, record low mortgage rates and accommodative monetary policy are helping to support the [housing market](#) and reduce defaults relative to what would otherwise prevail."

The UFA Default [Risk Index](#) measures the risk of default on newly originated prime and nonprime mortgages. The analysis is based on a "constant-quality" loan, which has the same borrower, loan and collateral characteristics. The index reflects only the changes in current and expected future [economic conditions](#), which are much less favorable currently than in prior years.

Provided by University of Michigan

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