



Contact: Jonathan Glowacki
Milliman, Inc.
Tel: +262 641 3560
Jonathan.Glowacki@milliman.com

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Press Release

Milliman analysis: Rising interest rates, lower refinance activity contribute to growing mortgage default risk in 2022 Q3

Total mortgage acquisition volume is down 62% year over year in 2022 Q3

SEATTLE – DECEMBER 2, 2022 – Milliman, Inc., a premier global consulting and actuarial firm, today announced the third quarter (Q3) 2022 results of the Milliman Mortgage Default Index (MMDI), which shows the latest monthly estimate of the lifetime default risk of U.S.-backed mortgages.

The default risk for government-sponsored enterprise (GSE) acquisitions (purchased and refinanced loans backed by Freddie Mac and Fannie Mae) increased from a rate of 3.02% for mortgage loans originating in Q2 to 3.54% for loans originating in Q3 2022. This means that for mortgage loans originating in Q3, the expectation is that 3.54% will become delinquent (180 days or more) over their lifetimes.

Rising interest rates during Q3 had a large impact on the mortgage market, with a 62% drop in mortgage originations year over year. Refinance activity in particular is driving much of the decline in volume; those originations are down 87% year-to-date. For both purchase and refinance loans, increased economic risk due to an expected slowdown in home price growth is also driving the rise in default risk.

“With interest rates rising, fewer homeowners are refinancing for a more favorable rate or length-of-loan compared to the year prior,” says Jonathan Glowacki, a principal at Milliman and author of the MMDI. “Instead, most refinance activity is for cash-out loans, which are typically associated with higher borrower risk. That, plus increasing economic risk associated with an expected slowdown in home price growth, are contributing to the increased mortgage default risk we’re seeing.”

The MMDI reflects a baseline forecast of future home prices. For more on the MMDI, go to www.milliman.com/mmdi/.

To access additional mortgage market thought leadership, go to <https://www.milliman.com/en/products/milliman-m-pire>.

About Milliman

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