

## Genworth: Difficult To Predict Mortgage Insurance '08 Losses

by dow-jones

CHICAGO -(Dow Jones)- Genworth Financial Inc.'s (GNW) mortgage insurance business expects a steadily deteriorating U.S. housing market through 2008, but the unit's president said it was difficult to predict how much the environment could deteriorate.

During the insurer's investor update Tuesday, Kevin Schneider, president of Genworth Financial's U.S. Mortgage Insurance business, said that the U.S. housing market had deteriorated in an "unprecedented" manner and that lack of refinancing liquidity, the substantial adjustable mortgage resets coming in 2008, growing unemployment and housing inventory which reached a 10-month supply in October created a situation "we have not witnessed since the Great Depression," Schneider said.

Even in the five weeks since the company held its third-quarter earnings conference call, Schneider said he had seen an acceleration in liquidity tightening, "not just in subprime, but also impacting the prime jumbo business."

Schneider said that he expects things to continue to deteriorate into 2008 and that mortgage insurance's performance will also deteriorate, though he said it was difficult to predict 2008 losses.

Instead, Schneider presented three scenarios, with varying loss profiles, and said results for the unit could range from net income in 2008 of between \$65 million and a net loss of \$100 million, or operating earnings per share in a range between a 25-cent loss to 15 cents in earnings.

Overall, Genworth expects 2008 earnings of \$2.65 to \$3.15 a share.

Schneider said he expected 2008 to be "the inflection point," and said that he expected the situation to improve in 2009.

He said the unit had captive reinsurance arrangements for 61% of its portfolio, to cover a portion of losses, with higher coverages for riskier products and geographical areas.

The unit's portfolio is also written to more conservative standards than the mortgage market as a whole, with less subprime, adjustable mortgages and low-documented mortgages than the industry. Genworth also wrote less coverage in the troubled California and Florida than the industry.

At the same time, Schneider said the unprecedented market decline also presents opportunities for Genworth to raise prices and cut back on riskier loans.

The company is taking a leading position with government-sponsored mortgage companies to push for better lending practices. "We will advocate a return to prudent and responsible underwriting," Schneider said. "We must ensure the excesses of the past never reoccur."

Shares of Genworth dropped 4% to \$27.05 in early trading Tuesday.

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