



ASSURANT
Solutions

A photograph showing the forearms and hands of two people, one in a dark blue shirt and one in a light blue long-sleeved shirt, holding hands. The background is a blurred image of a white house with dark shutters and a gabled roof under a bright sky.

Mortgage Debt Protection

A Survey of Consumer Attitudes and Preferences

EXECUTIVE SUMMARY

What is the one debt obligation that is most important to your customers and their families?

Unfailingly, consumers say they worry more about their mortgage payment than credit card bills, car payments or any other debt service. Keeping up with the mortgage is their foremost financial objective.

Mortgage debt also is increasing. The Federal Reserve's published triennial Survey of Consumer Finances showed that while median wages rose 1.6 percent between 2001 and 2004, the median level of mortgage debt increased 27.3 percent during the same time period.

Now comes a product that lenders can offer to consumers to allay their fears of defaulting on a mortgage note. Mortgage Debt Protection (MDP) provides consumers the option of cancelling or deferring their mortgage obligation during times when they are unable to make payments.

Assurant Solutions commissioned a study that reveals what borrowers want in debt protection, who is most likely to purchase MDP and how much they would be willing to pay for it.

- Consumers want MDP – there is a sizeable, highly receptive market for mortgage debt protection products.
- Demand for MDP is driven by respondents' level of anxiety over possible events that might adversely affect their ability to pay their mortgage.

- Purchase decisions, especially among borrowers with sizable monthly payments, are influenced more by the benefits than price.
- A simplified MDP product suite will satisfy most borrowers.
- MDP products appeal to both prime and sub-prime borrowers.

The survey confirmed that there are certain core events that cause financial anxiety among consumers. It also added to our understanding of what a consumer wants and needs in debt protection to alleviate this anxiety.

It is our belief that the confluence of recent socio-economic trends and natural disasters will continue to fuel consumer interest in – and need for – MDP coverage. In fact, there has never been a better time or a greater need for lenders to offer consumers protection for their mortgage payments.

The following pages reveal more details about consumer attitudes toward MDP, including information that can help lenders optimize product design and pricing strategies.

There has never been a better time or a greater need for lenders to offer consumers protection for their mortgage payments.

WHAT IS MORTGAGE DEBT PROTECTION?

Mortgage debt protection (MDP) offers consumers the peace of mind of knowing that their mortgage payments will be taken care of in a time of financial hardship. If an unfortunate event temporarily leaves a mortgage holder unable to make his/her payment for a sustained period, the mortgage obligation can be cancelled or deferred without penalty.

MDP products can cover myriad events, such as:

- Involuntary Unemployment
- Death or Disability
- Hospitalization
- Natural Disaster
- Family Leave

For lenders, MDP fees provide a new source of incremental fee income, greater yield per mortgage and a pool of reserves to offset losses. Debt protection is a loan product and, therefore, not regulated as an insurance product.

MDP allows lenders the opportunity to supplement existing mortgage products with debt-cancellation benefits that match consumers' needs at a variety of price points. As a result, the lender enhances the value to the customer of the underlying mortgage.



ABOUT THE SURVEY

Assurant Solutions commissioned Opinion Research Corp. (ORC), a national consumer research firm, to survey recent mortgage borrowers on their attitudes toward mortgage debt protection (MDP). Founded in 1938, ORC provides commercial market and demographic research for a host of companies, government agencies and information services.

Dr. Howard Lax (see right), former head of Market and Customer Information Research at Freddie Mac, led the study.

Assurant Solutions commissioned the study to help the company and its lender partners understand what consumers want in a MDP product, who would be most likely to purchase the product and how much they would be willing to pay.

Conducted in May and June 2005, the study involved focus groups and surveys of a statistically representative group of nearly 1,900 homeowners who had obtained a new mortgage, refinanced a loan, or opened a home equity line of credit or second mortgage during the previous 12 months.

The study included both prime and subprime mortgages of \$350,000 and below. Choice modeling and other statistical methods were used to determine the value of the results.

FIGURE 1

Research Approach



The project began in June 2005 with four focus groups conducted in Atlanta, Ga. Results from that research were used to prepare a questionnaire for a Greenfield Online panel. 1,892 online interviews were conducted with consumers who took out a new mortgage, refinanced a mortgage or took out a HELOC or second mortgage over the preceding 12 months.

Dr. Howard Lax Survey Leader

Howard Lax, Vice President and Senior Consultant for Harris Interactive, is one of the financial industry's foremost authorities on market research, marketing, consulting and education. He was responsible for the design, execution and delivery of research projects in ORC's Customer Strategies practice.

Before joining ORC, Dr. Lax was Director, Market and Customer Information, for Freddie Mac. He led the corporation's market research efforts, including major projects addressing mortgage lending, consumer finance and consumer credit, as well as customer satisfaction, branding, advertising, corporate image and public policy issues.

After leaving Freddie Mac and before joining ORC, Dr. Lax spent six months as an independent consultant with Bank of America Corporation on the redesign of its Voice of the Customer work regarding real estate products.

Before his eight years at Freddie Mac, Dr. Lax was a vice president at Claritas, where he directed the firm's market research activities and the marketing of information products and services for the financial services sector.

A noted author and speaker, Dr. Lax has taught at the college and graduate school levels. He holds doctorate and master's degrees in political science from the City University of New York.

BORROWERS WANT MORTGAGE DEBT PROTECTION



One fact stands out from the results of the Assurant Solutions survey: consumers clearly want protection for their mortgage debt. The market for MDP products is large – upwards of 50 percent of borrowers – among people with first, second mortgages, and home equity lines of credit (HELOC).

This is not surprising, given the rise of mortgage debt levels in the United States over the past several years. Historically low interest rates and an array of new mortgage lending products such as interest-only and no-down payment loans have fueled the recent refinancing and new-mortgage boom, resulting in an all-time high for home ownership and mortgage debt.

Coming on the heels of this surge in mortgage activity has been a rise in interest rates and fears of a housing bubble. Mounting anxiety is prompting many consumers – even those with low-interest, fixed-rate mortgages – to consider hedging their risk of default with mortgage debt protection.

Demand for MDP is spread across the demographic range of the nearly 1,900 people surveyed. Those in the survey group had obtained a new mortgage, refinanced a loan, or opened a home equity line of credit or second mortgage during the previous year.

Taking a closer look, 33 percent had obtained a mortgage to purchase a new home, while 56 percent refinanced their existing mortgage and 11 percent took out a second mortgage or HELOC.

The average home purchase price among those in the survey was \$170,000. Nearly three quarters of those surveyed had a 30-year, fixed-rate loan, while 18 percent held an adjustable-rate loan and 7 percent had an interest-only loan.

A large majority of respondents are married, between the ages of 25-54. About half have at least a college degree or higher. Nearly 60 percent of incomes fall in the \$25,000-\$75,000 range, while 13 percent earned more than \$100,000. Approximately 6 percent of respondents were classified as subprime borrowers.

Despite the differences in age, income, reasons for refinancing and distinctions between first and HELOC/second mortgages, interest in MDP exceeds 50 percent among all groups. As you will see in the next section of this report, the appeal of MDP products hinges more on consumer anxiety than demographics.

FIGURE 2
Respondent Mortgage Sources

Mortgage lenders provided the vast majority of mortgages held by survey respondents, with the nation's 10 leading lenders accounting for more than 40 percent of loans. Roughly 30 percent of purchase money and refinanced loans was sourced through brokers, compared to less than 10 percent of home equity lines of credit (HELOC) and second mortgages.

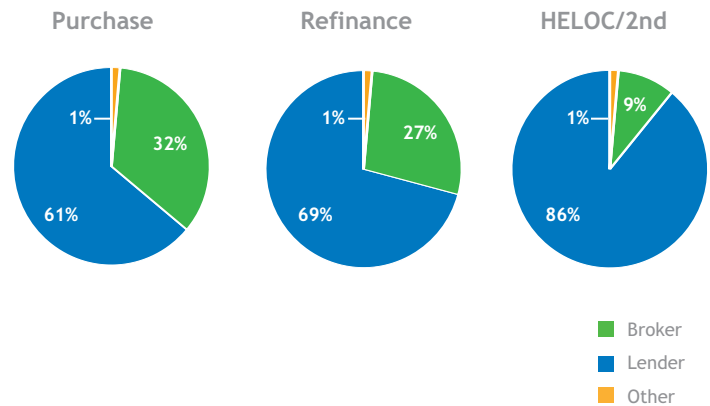
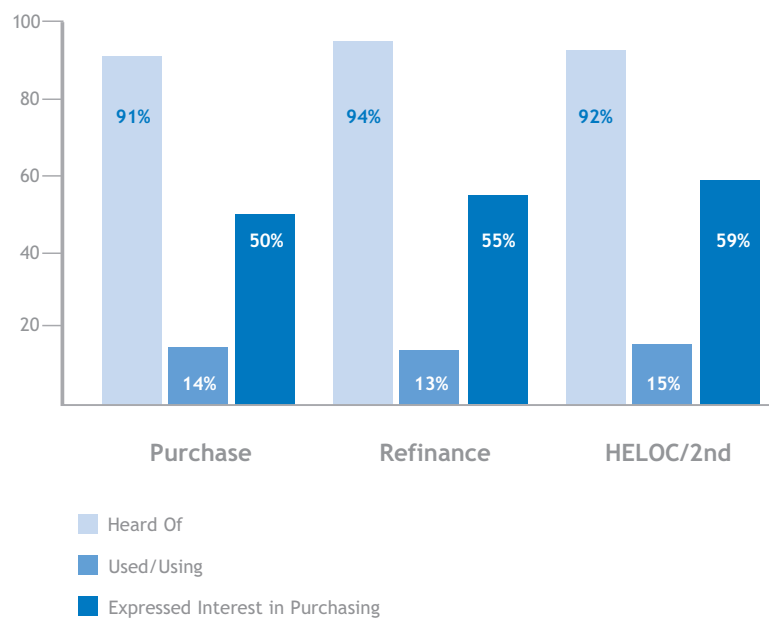


FIGURE 3
Respondents' Awareness of Protection Programs

The survey showed a high level (more than 90 percent) of awareness of credit-related insurance and payment protection products, but a low level (15 percent or less) of use. However, more than half of the borrowers surveyed were open to purchasing a debt protection program.



ANXIETY DRIVES CONSUMER DEMAND

Anxiety is the primary driver of consumer demand for MDP products.

Survey results showed that concern over events that could restrict one's ability to make a mortgage payment is the main catalyst for interest in MDP. Financial worries trumped all other reasons including demographics, the type of mortgage a person has, reasons for refinancing and even the amount of financial resources available.

Involuntary unemployment, at 34 percent, was the No. 1 anxiety-causing event, followed closely by disability (30 percent), hospitalization (30 percent), death of self or spouse (28 percent) and natural disaster (22 percent). (See Figure 4.) While one third of respondents indicated no financial anxieties whatsoever, a clear majority of respondents expressed concern about one or more of the top anxiety-causing events.

It is important to note that Assurant Solutions conducted the survey before Hurricane Katrina. Concerns about natural disasters (22 percent) are now likely stronger in certain geographical areas, given the devastation caused by Katrina, Rita, Wilma and other hurricanes in 2005.

The link between demand for MDP and financial anxiety is clearly evidenced in survey results. Respondents with a strong sense of anxiety have twice the proclivity to purchase MDP products compared to those with minimal anxiety. (See Figure 5.)

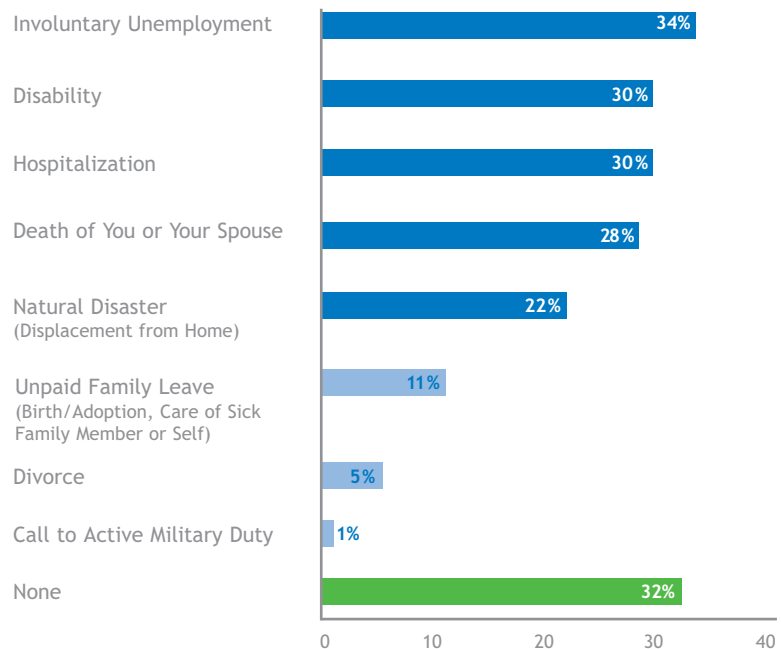
Borrowers with the lowest financial stamina – the ability to continue making mortgage payments despite a loss of income – are the most anxious, while those able to continue paying the mortgage for four or more months report the least worries. (See Figure 6.) This is especially true of sub-prime

FIGURE 4

Ranking Borrower Anxieties

Borrower concerns about personal misfortunes that could affect their ability to pay their bills are the primary drivers of potential demand for mortgage debt protection. The top causes of Borrower anxiety are unemployment, disability, hospitalization and death. One third of respondents said they were not concerned about such potential hardships.

(Note: Although this survey was completed about two months before Hurricane Katrina struck the Gulf Coast in 2005, 20 to 25 percent of respondents across all loan types cited a natural disaster that displaced them from their homes as a significant worry.)



borrowers, who exhibit anxiety levels that are nearly twice as high as prime borrowers.

This apprehension appears to be based partly on experience. More than three-fourths of the survey respondents admitted to having trouble making a mortgage payment at some time in their past, while roughly one-third said their savings were not sufficient to cover their mortgage and basic living expenses for even two months. (See Figure 6.)

Another cause for concern among a number of borrowers is the feeling of being underinsured. Though there is no direct correlation between insurance held and demand for MDP, less than half of those surveyed reported that they have life and disability insurance, while another 30 percent have only a life policy. Twenty percent carry neither type of coverage.

In a fiercely competitive lending market, offering MDP options can be an important differentiator in expanding current customer relationships and attracting new borrowers.

FIGURE 5

Anxiety's Effect on Take Rates

The willingness of respondents to purchase mortgage debt protection is directly related to their anxiety level. Respondents with the highest degree of anxiety (Quintile 5) are more than twice as likely to purchase mortgage debt protection as those with the lowest degree of anxiety (Quintile 1).

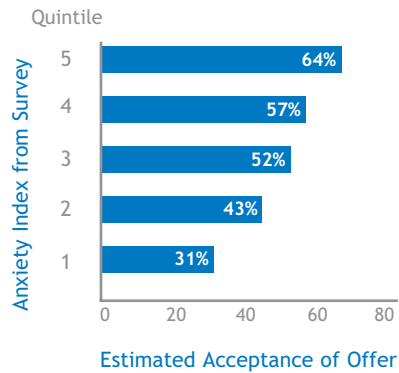
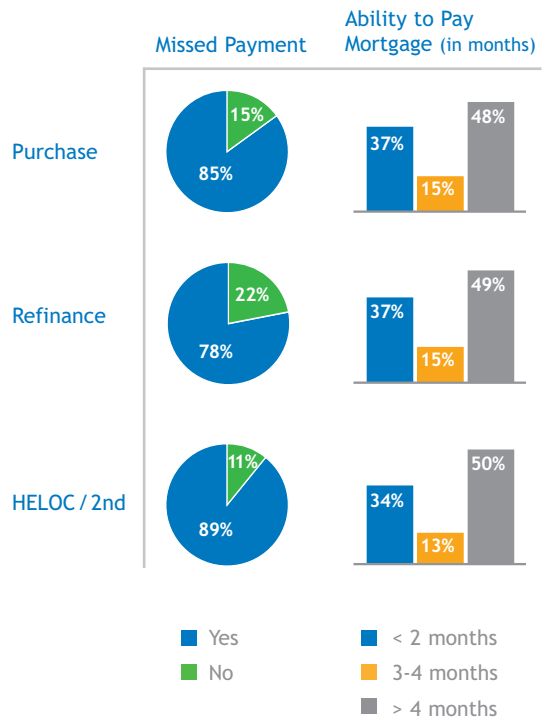


FIGURE 6

Financial Stamina of Mortgage Borrowers

A significant percentage of respondents across all loan types indicated that they had been unable to make a mortgage payment in the past. One-third said their savings was not sufficient to cover their mortgage and basic living expenses for even two months.



WHAT CONSUMERS WANT



Consumer preference for MDP product benefits is likely to be the same no matter whom you ask.

Despite differences in personal financial status, loan type, etc., most of the borrowers surveyed made similar choices when asked what they would like in a MDP product. Even prime and sub-prime borrowers are consistent in their product preferences.

Why the similarities? As with demand for debt protection, borrower anxiety is the determining factor for what people want in a MDP product. The stronger the effect that an event has on borrower anxiety, the more consumers will value coverage for that event.

Consumers are willing to pay to protect their single biggest asset in times of financial trouble.

Overall, the most preferred MDP product features (Figure 4) include coverage for:

- Involuntary Unemployment
- Disability
- Hospitalization
- Loss of Life
- Natural Disaster

Given this uniform demand, lenders can simplify and streamline a limited number of MDP offerings to cover the vast majority of the consumer market, saving resources, time and costs.

Borrowers also voiced a desire for accidental death coverage with complete payoff of the remaining mortgage and coverage for all causes of death with cancellation of 12 months of mortgage payments.

In terms of desired coverage for temporary situations, hospitalization or a natural disaster trumped divorce. This reflects the fact that only 5 percent of respondents cited divorce as an event that would cause them worry over their mortgage debt.

At the other end of the spectrum, catastrophic events (permanent disability and accidental death) are the areas where borrowers have the most anxiety, and thus want to ensure that they hedge their mortgage payment risk.

As for coverage, those surveyed preferred either a) cancellation terms of 12 months of mortgage payments after a 30-day wait period or b) 24 months of mortgage payments after a 90-day wait period. They did not place much value in six months of mortgage payment cancellation after a 30-day wait period.

These insights are key to creating a MDP product that will attract borrowers. With this in-depth knowledge of consumer preferences, lenders can optimize product offerings to maximize revenues and increase profits.



WHAT LENDERS NEED

From the lender's perspective, an optimal MDP product represents:

- the converging of consumer-oriented benefits;
- pricing to provide adequate revenue to offset losses; and
- attracting the greatest number of covered borrowers. (See Figure 7.)

An optimized offer can also simplify a lender's MDP product line. Since consumer preferences for MDP are similar, and demand is mostly dependent on an individual's level of financial anxiety, lenders need only to focus on a few key product features to appeal to most of the consumer market.

In today's environment, particular care must be taken to properly bundle benefits to produce predictable and consistent loss experience. Unlike regulated credit insurance products, MDP is considered a loan product and, as such, cannot utilize underwriting practices common to credit insurance such as a "maximum age."

Bundling benefits, as opposed to single-event products, is key.

Combining the core benefits as defined by consumers in price-effective bundles will produce predictable financial results. (See Figure 8.)

FIGURE 7
Optimizing Product Return

A successful mortgage debt protection product (MDP) represents a convergence of optimal price points, maximum conversion rate and the appropriate utilization of benefits

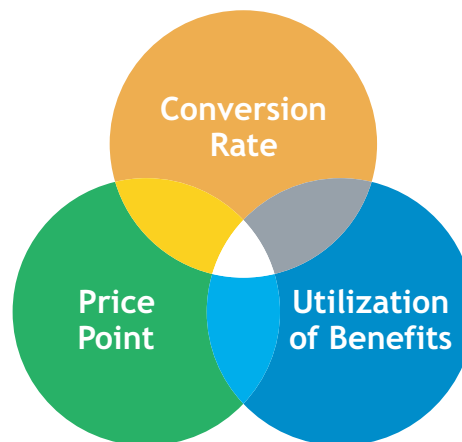


FIGURE 8
MDP Product Bundles

Many product combinations are possible. This chart illustrates two hypothetical Lenders' approaches to MDP configurations.

| | Lender A | Lender B |
|---------------------|--|---|
| Product #1 | Accidental Death, Disability and Hospitalization | All Cause Death, with 12 payments cancelled, Disability, Natural Disaster |
| Product #2 | Accidental Death, Disability, Involuntary Unemployment and Hospitalization | All Cause Death, with 12 Payments Cancelled, Unemployment, Hospitalization, Natural Disasters |
| Additional Features | 6 Months Benefits; Single and Joint Options | Primary Borrower Only; 12 Months Benefits |

WHY ASSURANT SOLUTIONS?



Assurant Solutions is the right partner for lenders interested in offering mortgage debt protection products. We have been a leader in debt protection since the product's inception in 1998.

Assurant companies have long-standing relationships with many of the nation's top lenders, including six of the 10 largest mortgage lenders and servicers. Assurant Solutions also is the exclusive provider of debt protection administration services for three of the seven largest credit card issuers in the United States.

Through these relationships, Assurant Solutions has developed some of the financial services industry's most innovative and effective real estate-secured loan solutions. We now can draw upon the insight from our proprietary

study of consumer attitudes toward mortgage debt protection to assist our lending partners in developing profitable and cost-effective MDP programs.

Moreover, because Assurant Solutions has a wealth of experience working with a broad range of financial institutions, retailers, automobile dealers, utilities and other groups, we have the expertise to provide risk management solutions across all markets and loan types.

Let us show you how we can help customize an MDP program for your specific needs.

DIVERSIFIED FINANCIAL SOLUTIONS

The Diversified Financial Services business of Assurant Solutions draws upon a rich history of industry leadership as a developer, underwriter, marketer and administrator of quality consumer debt protection and customer loyalty/reward programs.

Leading banks, credit card companies and mortgage lenders throughout the financial services industry have found our products add significant value to their core business and end-value for their customers. As our partner, you will receive full program support, including information technology, actuarial, marketing, customer service, fulfillment, product training, claims/benefit activation and reporting.

Balancing best-in-class service with low-cost delivery, Diversified Financial Services offers a wide range of revenue-enhancing products and services to complement every lending program. Our patent-pending targeted retention solution maximizes the lifetime value of your customers. We focus on:

- Debt Protection Administration
- Credit Insurance
- Loyalty/Reward Programs

Legal and Regulatory Support Our staff attorneys and governmental affairs specialists proactively protect your interests and keep you current with shifting regulatory requirements.

Risk Assessment and Management Our extensive product knowledge, decades of experience and our ability to stay abreast of industry trends are unmatched.

Client Management The client relationship manager, along with the rest of your support team, is focused on building your business,

and efficient processing and accuracy in handling customer claims and issues.

Product and Marketing Management We ensure that your products are at the leading edge of the market. Moreover, our in-house advertising agency and contact management groups offer telemarketing, direct mail and Internet solutions.

Technology Solutions We employ satellites, the Internet and other high-speed telecommunications within a highly flexible technological environment to service you and your customers from multiple call and claims centers.

CONTACT INFORMATION

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ASSURANT Solutions

Assurant Solutions companies develop, underwrite, market and administer specialty insurance, extended service contracts and other risk management solutions through collaborative relationships with leading financial institutions, retailers, automobile dealers, utilities and other entities. With operations in 16 locations, including executive offices in Atlanta, Ga., Assurant Solutions serves clients and their customers throughout North America, the Caribbean and selected countries in South America and Europe.

Assurant Solutions is part of Assurant, a premier provider of specialized insurance products and related services in North America and selected other markets. Its four key businesses – Assurant Employee Benefits, Assurant Health, Assurant Solutions and Assurant Specialty Property – partner with clients who are leaders in their industries and who have built leadership positions in a number of specialty insurance market segments in the United States and selected international markets.

Assurant, which is traded on the New York Stock Exchange under the symbol AIZ, has over \$20 billion in assets and \$7 billion in annual revenue.

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