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GNW - Q3 2009 Genworth Financial, Inc. Earnings Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Genworth Financial third-quarter earnings conference call. My name is Deanna, and I will be your coordinator today. At this time, all participants are in a listen-only mode. We will facilitate a question-and-answer session towards the end of this conference call. As a reminder, the conference is being recorded for replay purposes. Also, we ask that you refrain from using cell phones, speakerphones or headsets during the Q&A portion of today's call.

I would now like to turn the presentation over to Alicia Charity, Senior Vice President, Investor Relations. Ms. Charity, you may proceed.

Alicia Charity - *Genworth Financial, Inc. - SVP of IR*

Thank you. Welcome to Genworth Financial's third-quarter 2009 earnings conference call. Our press release and financial supplement were both released last evening and are now posted on our website, as well as some additional detail regarding invested assets. Again this quarter, we will also post management's prepared comments following the call for your reference.

This morning you will hear first from Mike Fraizer, our Chairman and CEO, followed by Pat Kelleher, our Chief Financial Officer, and then Ron Joelson, our Chief Investment Officer. Following our prepared comments, we will open the call up for a question-and-answer period.

Pam Schutz, Executive Vice President of our Retirement and Protection segment; Buck Stinson, President, Insurance Products; Tom Mann, Executive Vice President of our International segment; and Kevin Schneider, Senior Vice President of U.S. Mortgage Insurance, will be available to take questions.

With regard to forward-looking statements and the use of non-GAAP financial information, some of the statements we make during the call will contain forward-looking statements. Our actual results may differ materially from such statements. We advise you read the cautionary note regarding forward-looking statements in our earnings release and the Risk Factors section of our most recent annual report on Form 10-K, filed with the SEC in March 2009.

This morning's discussion also includes non-GAAP financial measures that we believe may be meaningful to investors. Our supplement and earnings release non-GAAP measures have been reconciled to GAAP where required in accordance with SEC rules.

And finally, when we talk about International segment results, please note that all percentage changes exclude the impact of foreign exchange. In addition, the results we will discuss today for the Canadian Mortgage Insurance business reflect total Company results, including the Minority Interest, unless otherwise indicated.

And with that, let me turn the call over to Mike Fraizer.

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President, CEO*

Thanks, Alicia, and thanks, everyone, for your time today. Let me begin by saying how pleased I am with Genworth's strategic execution progress this quarter, and that progress is evident on multiple fronts, as outlined in our earnings release. Moreover, this progress represents an acceleration of important strategies and actions you saw unfold in the first two quarters of 2009, and sets us up well as we position for 2010 and beyond.

While economic, business and consumer environments remain challenged, Genworth has focused on sound growth and profitability enhancement opportunities that fit with our strengths, expertise and leadership platforms, engaged with our distribution partners to play offense and build stronger partnership positions, pursued risk management and loss mitigation opportunities quickly and relentlessly, with tangible results, and built capital buffers and flexibility substantially, using a number of levers across our businesses and at the holding company to do so.

Now, we've all seen tremendous change over the past year in response to new realities. In fact, it is fair to say that we've probably packed three to four years of change under normal circumstances into the past year here at Genworth. And that made sense to us as it became clear that we could emerge from this period stronger and more focused.

Today, I will concentrate on three areas -- our operating environment, how growth strategies are proceeding and capital deployment. Pat will address key financials and trends and Ron will update you on the progress and outlook across our investments portfolio.

Turning to the environment, we remain encouraged by signs of stabilization and improvement that we are seeing in key areas. Investment losses remain at manageable levels, and unrealized losses continue to contract. In both Canada and Australia, home prices and unemployment improved during the quarter, and economies are looking better. In Europe, the growth rate of unemployment, a key metric for one of our Lifestyle Protection lines, has moderated, and distributors are beginning to focus again on lending opportunities and growth.

In the US, we see consumers willing to return to investing in equity markets and purchase or evaluate protection, retirement and wealth management offerings, though there seems to be some mixing down in purchase decisions to enhance affordability. And in the US mortgage market, we are seeing what I would describe as two housing risk cycles, the first attributable to bad products and tough geographies, and, in some cases, bad originators. Here we saw rapid deterioration in certain high loan balance states through 2008 and in higher risk alternative products. New delinquency development in this smaller portion of our book has slowed.

The second cycle is a traditional unemployment-driven pattern of delinquency development among prime borrowers. We are in the midst of this cycle, which has more predictable characteristics and loss emergence patterns. In this second cycle, we also see an intense effort under way focused on loan modifications.

With that as context, let's turn to our growth agenda. In Retirement and Protection, our refined specialist strategies, centered around Main Street life insurance, long-term care insurance and independent advisor wealth management products and services, is proceeding well. And we remain targeted on the annuity front.

In International, we've concentrated our efforts around mortgage insurance in Canada and Australia and Lifestyle pProtection in Europe and select new markets. In addition, mortgage insurance in force in Europe continues to decline and is well-contained while we assess the potential for a better European M.I. business model in the future.

Finally, in U.S. Mortgage Insurance, new business reflects a lower risk profile, with much higher returns, driven by product, guideline, underwriting and pricing changes. Here, we are on track, executing our plan laid out several quarters ago for this business to be self-contained from a capital standpoint. This positions us well to grow and have capacity to support mortgage lending as the housing cycle stabilizes and turns.

We also continue to pursue strategies, such as legal entity stacking, that further enhance growth flexibility.

Now let me go a bit deeper on our progress to enhance our market positions, which includes providing new or refined products, building our distribution footprint and enhancing our service offerings, all in support of a focus on smart growth.

Starting with Retirement and Protection, we added 11 new distribution relationships in the quarter and expanded products offered with 17 existing distributors. In the Life Insurance business, we are building on our strong position distributing through the brokerage general agency channel. Looking at policy count, we saw good 15% sequential growth in term policies sold.

We are transitioning to our next-generation life products, which meet both UL and term insurance consumer needs, with more efficient capital designs that enhance returns.

We launched Universal Life and Survivorship UL products in the third quarter, and early feedback from distribution has been very positive. Next month, we will replace old term life designs with a hybrid term UL product, which we expect to be a lead offering moving forward.

Turning to long-term care, we rolled out a custom product portfolio for AARP members, and are completing the transition and expansion of a new large-group LTC customer relationship, the Teachers Retirement System of Texas.

In Wealth Management, we continue to differentiate, using service and technology as a competitive advantage. Our objective is simple -- make it easier for independent financial advisers to meet their clients' needs by providing high-value products and support services that reinforce client comfort.

We rolled out a more simplified approach for advisers to use with their clients around asset allocation that helps clients optimize their portfolios and meet their objectives in a range of market conditions.

Finally, in variable annuities, we remain targeted, focusing on providing a competitive product in the independent channels and select banks and wires. To that end, we introduced a new product, RetireReady One, which has been well-received by the market. Sales increased 41% sequentially to $217 million, and we would expect to build off that base moving forward.

Overall Retirement and Protection sales, while lower year-over-year, achieved good sequential growth, and we expect these sales trends to build over time as we gain momentum and move through some of these product transitions.

Turning to International, in both Canada and Australia, we saw good sales performances. In Canada, high LTV lending, which has a seasonal uptick in the summer months, was strong. I will remind you that we expect high loan to value originations to contract by an estimated 20% in 2009, reflecting the economic decline, despite government initiatives to stimulate first-time home ownership. We estimate this will reverse in 2010, with sound growth and high loan to value originations.

In Canada, we are working with our distribution partners to add value through service and technology, and see a good opportunity to increase our market share gradually, with the target of moving back towards the nearly 40% share position we enjoyed a few years ago.

In Australia, we saw continued strong sales. The high LTV origination market has remained robust, in contrast to Canada, as government home ownership incentive programs and lower rates acted as a very effective stimulus. In 2010, that market is expected to trend down from 2009 levels as incentives are reduced to traditional levels and interest rates move up.

We had some good success adding to our distribution base here during the quarter, expanding our position with key large lenders. In addition, in Lifestyle Protection, we have added nearly 50 new deals across Continental Europe.

This brings us to U.S. Mortgage Insurance. As we saw conditions in many housing markets improve in recent months, we took appropriate steps to adjust our guidelines. During the quarter, we removed about 200 MSAs from our restricted markets list, where we had been limiting coverages to 90% and below LTVs based on housing market risk factors, and will now write well-underwritten business up to 95% loan-to-value. This change notably broadens where we will pursue new business, and we expect it to help drive growth in new insurance written as we move into 2010.

There are still five states where housing market and economic conditions remain quite challenged, so we have kept stricter guidelines in place in these markets.

Finally, turning to capital deployment, we substantially increased holding company capital levels. This gives us the flexibility to fund emerging areas of new business growth, optimize our capital structure, including positioning us well to handle our long-term debt maturities, and provide an additional buffer against downside risk.

More specifically, we currently have $1.3 billion of cash at the holding company, following the secondary offering in September, which generated $622 million of net proceeds. We repurchased $73 million of our 2012 debt during the quarter, and will actively pursue other alternatives to optimize our debt structure and move towards a 20% debt-to-capital ratio, finalizing strategies well before our next long-term debt maturities in the mid-2011 and 2012 timeframe.

In addition, as Pat will cover, we have plans in place to reinvest significant levels of excess operating company cash over the next several quarters.

In closing, we accomplished a lot over the past 12 months. Doing so required us to be decisive and act swiftly. Our agility allowed us to optimize the alignment of the business and focus on where we can best win.

We made aggressive moves to mitigate risk and losses, and increased price where warranted. And we did what we needed to do to build capital flexibility in a staged fashion while minimizing shareholder dilution.

Looking ahead, we have a clear business focus and can now invest strategically in product, distribution, service and technology to drive growth in ROE improvement moving forward. With that, let me turn it over to Pat. Pat?

Pat Kelleher - *Genworth Financial, Inc. - SVP, CFO*

Thanks, Mike. We've now reported a second sequential quarter of improved financial results as our businesses emerged from the recent financial crisis and economic downturn. During the quarter, we have fortified our holding company capital position and improved financial flexibility. We have seen further improvements in our investment portfolio and operating results. And, as Mike detailed, we are encouraged by the positive signs of reemerging new business growth.

Genworth's book value per share increased for the second straight quarter, and is up 34% since the first quarter to $25.42 per share, despite the 13% increase in shares outstanding related to our secondary offering.

Key financial trends and developments during the quarter included improving fundamentals in equity and credit markets generally; improving business and housing market conditions in Canada and Australia; positive impacts from repricing new product and cash reinvestment activities; and effective loss mitigation programs, particularly in U.S. Mortgage Insurance. Here, we have seen declining losses for two sequential quarters despite the impact of increasing delinquencies because of the significant increase in loss mitigation savings.

This morning, I will focus on each of our three business segments. For each, I will provide some market context, review progress from a financial results perspective and share some views on how we expect trends to develop for the fourth quarter and into 2010.

Starting with Retirement and Protection, we are seeing good continued performance trends. In life insurance, mortality and taxes were favorable in the quarter, and we had a $16 million lift from an annual actuarial review of assumptions, primarily from DAC unlocking, that were updated to reflect current emerging experience. After excluding both the unlocking and about $10 million relating to favorable mortality and taxes, this level of earnings sets a fair baseline from which we expect to grow into 2010.

In long-term care, sequential results were a bit lower than we would have expected, as we saw lower policy terminations, primarily related to lower mortality, which resulted in a $6 million increase in claims. Following several quarters with slightly higher levels of terminations, we view this as normal statistical variation.

In wealth management, we saw the second straight quarter of positive net flows from adding new financial advisors and from an increased share of assets with our current financial advisors. Solid organic growth, coupled with equity market improvements, resulted in a $2.1 billion increase in assets under management to $18 billion, a strong recovery, back to the level of AUM we had a year ago.

Looking at October results, we see positive flows continuing, and with the strengthened AUM base, we are well-positioned for earnings growth going forward.

In our Retirement Income business, we experienced mixed results. Our fee income business clearly benefited from favorable equity market conditions, with operating earnings increasing on both a year-over-year and sequential-quarter basis.

Our spread business experienced earnings declines due to continuing spread pressure from holding large cash balances. Overall, we reinvested approximately $700 million of cash during the quarter, but we also took advantage of improving credit markets to sell approximately $1.5 billion of assets to further reduce risk exposure in financials. This negatively impacted spreads in operating earnings, particularly in this product line.

As we continue to reinvest cash -- and we do plan to reinvest $2.5 billion to $3.5 billion of additional cash over the next few quarters -- we expect to see a reversal of the negative operating income trend in spread products, starting in the fourth quarter.

Results in the institutional business are also impacted by holding high cash balances, as well as our decision not to write new business in this market. During the quarter, we had a nominal $2 million gain from repurchases of funding agreement backed notes compared with the $52 million a year ago. I will note that we continue to respond to opportunities to repurchase these notes to provide liquidity to noteholders, and did so again in October.

Adding results up from a statutory perspective, statutory earnings were more than offset by higher capital requirements relating to new business and moderate levels of credit migration. The consolidated risk-based capital ratio decreased from 390% to an estimated 370% during the quarter.

We are well-positioned to meet our year-end target of a 350% or better risk-based capital ratio. We do have the flexibility to contribute capital to the life companies to support additional growth and to manage capital.

Turning to the International businesses, mortgage insurance earnings in Canada and Australia improved significantly on a sequential-quarter basis and are performing well, given the economic pressures in these markets. Recent improvements in housing prices in both countries helped results, and performance through 2009 demonstrates the inherently more stable financial model that results from the single premium product and favorable regulatory frameworks, which help manage risks.

Let's take a closer look at Canada. Here, unemployment rates increased from 6.6% at the close of 2008 to a high of 8.7% in August as the economy slowed. Unemployment in September actually declined from August, an encouraging sign that we will be closely monitoring. During this same period, housing affordability improved, as mortgage interest rates declined from around 5% at the end of 2008 to 4% currently, and home prices increased from comparatively low levels in the fourth quarter of 2008. Most regions have now recouped the declines experienced during the recent downturn.

Improved home prices facilitate loss mitigation activity related to new unemployment-driven delinquencies. As a result, the delinquency rate in Canada, which had been relatively stable for the past two quarters at about 30 basis points, actually improved incrementally in the third quarter to 28 basis points, reflecting these improved trends.

The loss ratio declined sequentially by seven points, and operating earnings increased from $58 million to $70 million, before taking into account the IPO of a minority interest in Genworth M. I. Canada.

Turning to Australia, environmental and performance characteristics of this business mirrors the situation described in Canada. The economy experienced three straight quarters of GDP growth, which was actually better than Canada. Unemployment rates increased from 4.6% at the close of 2008 to a peak of 5.8% in August, before declining to 5.7% at the end of the third quarter.

Housing affordability increased, as most borrowers have floating-rate mortgages, and mortgage interest rates declined from a high of 9.8% in the third quarter of 2008 to 5.8% currently. As in Canada, home prices increased from relatively low levels in the fourth quarter 2008, and most areas recouped the home price declines experienced during the recent downturn. Here as well, these conditions facilitate loss mitigation activities related to delinquencies resulting from higher unemployment. As a result, the delinquency rate declined to 41 basis points from 45 basis points in the second quarter, reflecting these improved trends. The loss ratio declined sequentially by nine points, and operating earnings increased from $32 million to $42 million.

As we look ahead, we will monitor how these recent favorable trends develop in both Canada and Australia, and are optimistic that earnings will remain at or above current levels.

Turning to Europe, we are seeing early signs of recovery in Lifestyle Protection earnings, which have been negatively impacted during 2009 by rising unemployment, although operating earnings are well below prior-year levels as a result of these economic conditions. However, we did see sequential-quarter growth from a low of $4 million in the second quarter to $18 million in the third quarter.

Two trends contributed to this. First, a considerable slowdown in new claim registrations, reflecting a slowdown in the pace of unemployment growth in Europe. Specifically, new claim registration slowed by about 16% compared to prior quarter, contributing $14 million to earnings growth.

Second, we completed scheduled repricing and contract renegotiation activity during the quarter, and this contributed about $2 million of increased earnings. We've now completed this activity for about 20% of targeted accounts and expect to have about 60% to 70% of our targeted accounts completed by year-end. The operating earnings impact will increase over time, and we expect about $4 million to $6 million incremental impact in the fourth quarter from this activity, and expect to see positive impacts in future quarters.

Given these trends, the repricing and contract renegotiations provide a nice cushion that will help absorb additional loss pressure if economic conditions worsen. All in, we are expecting continued earnings improvement going forward.

From a capital plan perspective, our international segments ended the quarter with sound capital ratios, and we saw sequential increases in regulatory capital ratios in Canada and Australia.

Turning to U.S. Mortgage Insurance, here we had a few moving pieces impacting this quarter's earnings. Three developments were primary drivers of the improvement we saw from Q2 -- the settlement we previously announced, increased loss mitigation activity and unemployment and seasonality-driven increases in delinquencies. I will briefly explain each development.

First, the settlement. We recorded a $62 million one-time after-tax charge in the quarter relating to settlement of a dispute concerning certain bulk master policies. We are pleased with the resolution of this matter.

Second, the loss mitigation impacts. We significantly increased loss mitigation activity in the quarter, and further increased the rate of rescission of delinquent loans in our flow portfolio. These results reduced the frequency at which delinquent loans in our portfolio are resulting in losses. The impact was particularly significant in what we term the sand states.

As part of our normal quarterly loss reserving process, we measure the rate at which delinquent loans are resulting in losses and establish reserves, after taking into account our recent historical experience, which includes our loss mitigation results. Due to the increased loss mitigation activity, in particular, our loss reserves were reduced by $135 million after-tax. Approximately 65% of this change related to the sand states, while the remainder related to all other geographies.

While we would expect continuing benefits from loss mitigation activities in future quarters, we would not expect the impact on loss reserves to be the same order of magnitude that we experienced in the third quarter. The results we achieved were directly related to the changes in staffing and loss mitigation activity, as we previously disclosed.

Third, the delinquency change impacts. Overall flow delinquencies increased by 14%. Compared with the second quarter, the change in delinquencies increased by an incremental 4400. Included in this change are additional delinquencies driven by seasonality and unemployment, partially offset by increased loss mitigation results, which decrease the number of delinquent loans. All-in, this resulted in an additional $57 million after-tax increase in reserves in the quarter. This result is driven by the incremental increase in delinquencies compared with the second quarter, partly offset by a reduction in reserve per delinquency associated with a changing geographic mix.

I should note that our loss reserve calculations have not anticipated any future increases in the level of loss mitigation activity. This combination of loss mitigation results and national unemployment-driven delinquencies contributed to a nearly $3000 decline in flow reserves per delinquency. About three quarters of that decrease was related to the loss mitigation impacts, and the remaining 25% was related to the delinquency change impacts.

Looking forward to fourth quarter, we expect to see some continuing unemployment and seasonal pressure on delinquency counts, and based on current trends, we expect the reserve per delinquency to trend down, but at a slower rate than we saw this quarter.

Looking over the next several quarters, we expect the aggregate level of loss mitigation savings to continue to grow, with the mixed shifting from rescissions to loan modifications.

We are also encouraged by the number of Genworth-insured loans that have been approved for the Federal Government's Home Affordable Modification Program, or HAMP. To date, the number of HAMP modifications has been immaterial to our results, and therefore has not been factored into our reserves. At the end of the quarter, we had approximately 11,500 delinquent loans included in HAMP, up from approximately 1260 in the second quarter. Clearly, we are seeing increased activity, and this may become more important in 2010.

Finally, from a capital perspective in US M.I., we are confident that the business plan can operate with its current capital plan, even if the housing market experiences more severe stress. During the quarter, our risk-to-capital ratio increased moderately to 15.1-to-one from 14.8-to-one, which is well within our expectations for the USMI self-contained capital plan.

In sum, we are optimistic that we are seeing inflection points for many of our businesses. Leading the way, we have seen stabilizing trends and good results in Canada and Australia, continuing improvement in the investment portfolio and favorable mortality, morbidity, persistency and market trends in our Retirement and Protection segment.

We are putting significant amounts of cash back to work in our operating companies, and we have taken prudent loss mitigation actions, particularly in U.S. Mortgage Insurance and Lifestyle Protection. These include price increases and product changes to reflect current realities, while at the same time positioning our businesses to capitalize on opportunities for growth.

We achieved increased financial flexibility from both a minority IPO in Canada and the secondary offering in September, and we are ahead of plans with respect to our capital plan.

As always, effectively managing capital remains a key priority, and as we turn our attention to 2010, we are keenly focused on positioning Genworth for future growth. Now I will turn it over to Ron.

Ron Joelson - *Genworth Financial, Inc. - SVP, CIO*

Thanks, Pat. We were pleased to see continued improvement in the investment portfolio for the quarter. Active credit markets, spread tightening and improved profitability of companies in the corporate portfolio have contributed to the performance and quality of the investment portfolio.

This morning, my comments are focused on three areas -- third-quarter results, including realized and unrealized losses, our investment activities and how cash deployment and derivative strategies generate yield while mitigating risk, and the performance of our commercial mortgage loan and commercial mortgage-backed securities portfolios.

Net income in the third quarter included net investment losses of $62 million, net of tax and other adjustments, compared to $59 million last quarter and $478 million in the third quarter of 2008. This includes $127 million of net other-than-temporary impairments, comprised of $15 million from corporate bonds, primarily on CIT Group, $47 million from financial hybrid securities, where downgrades to below investment grade required us to use the impairment rules applicable to equity securities, $47 million from subprime and Alt-A RMBS, $16 million from other structured securities, prematurely from prime, residential mortgage-backed securities.

Focusing on structured securities, impairments for the quarter totaled $63 million, with $47 million from subprime and Alt-A and only $3 million from CMBS. The $63 million compares with $71 million in the second quarter and $183 million in the first.

Third-quarter results included $12 million of gains on derivatives, primarily associated with guaranteed minimum withdrawal benefit variable annuities, a change in market value related to credit derivatives, offset by modest losses on our capital hedges. We use derivatives primarily to help manage duration and to protect capital from adverse interest rate movements.

Moving to unrealized losses, total net unrealized losses, after tax and other adjustments, improved significantly to $1.4 billion from $3 billion in the second quarter and $4.1 billion in the first quarter. This decline is a result of improved market conditions and continuing risk reduction actions. As of quarter-end, we have a net unrealized gain of $9 million in our corporate, government and tax-exempt portfolios.

Turning to active market strategies and cash deployment, we have been focused on repositioning the portfolio by investing in high-quality names and in asset classes that improve diversification. We continue to add a broader range of credits where we have no or low exposure, while selectively reducing names with higher concentrations. We also continue to reduce our weighting in banks and financials, and have reduced our exposure to this sector through sales and runoff by over $1.5 billion to date --year-to-date.

For example, in the third quarter, we sold $103 million of CIT and wrote down $14 million after-tax, bringing the overall exposure to $46 million at quarter-end. We have further reduced our CIT position by an additional $28 million since quarter-end, bringing the total to $18 million. This is a significant reduction from the $186 million in the first quarter.

We have also been adding selectively in structured securities. In RMBS, we are focused on agency and very seasoned prime securities which still offer compelling value versus historic norms. And in ABS, we're looking predominantly at AAA-rated short-duration credits, where improved structures offer better credit support.

While we continue to underweight real estate and consumer sectors, we are also adding very selectively to our commercial mortgage loan portfolio.

Turning to CMBS, this portfolio is $3.9 billion and continues to perform well despite a deteriorating commercial real estate market. We have seen some downgrades. However, 85% of the portfolio remains rated AAA or AA, down from 87% in the prior quarter, and impairments are minimal due to the significant subordination levels that have cushioned higher losses that have occurred in the underlying portfolio. Approximately 70% of our holdings are from 2005 and prior vintages.

There are three key reasons why we expect our CMBS portfolio to outperform what you see in the market. First is the type and vintage concentration of our positions. About 87% of the conduit portfolio is from 2005 and prior vintages, where the loss characteristics are lower and losses are more predictable.

Second is how conservative we underwrote our positions. Delinquencies have been consistently lower than the market, especially in our large loan book. And despite rating agency downgrades and methodology changes, 91% of the portfolio is rated single-A or better, due in part to our focus on more seasoned paper.

Finally, the subordination in our CMBS deals provides significant cushion against losses, which we demonstrate to investors by way of our stress test disclosure and exhibits, which you can find on our website. Here we look at Street estimates of stress losses on a deal-by-deal basis and average those stress losses' lifetime estimates to calculate how many of our deals can withstand those stress losses. 66% are either fully guaranteed agencies or can withstand four times those stress losses. 97% can withstand 1.2 times that conservative estimate.

In addition, we actively monitor and assess our positions, and have taken advantage of recent price movements to reduce exposures to some of our riskier holdings.

The commercial mortgage loan portfolio performed well in the third quarter, with only a modest increase in problem loans. Despite the market headwinds, we continue to remain positive about the portfolio and believe it is well-positioned to withstand further stress. We had only six loans delinquent for a period of 60 days or more through September, totaling $24 million, and our loan-loss reserve increased to $41 million from $33 million. This represented an $8 million pretax reduction to net investment income.

The $7.7 billion portfolio has an average loan size of $4 million, occupancy average is 90%, and while down slightly from year-end 2008, remains above industry average. Less than 7.5% of the portfolio has occupancy below 70%. Average debt service coverage remains above 1.6 times on our fixed-rate portfolio and 2.2 times on our entire portfolio. The current average loan-to-value in the portfolio is 63% at quarter-end versus 55% at the end of 2008.

Last quarter, we mentioned that we expected our average --our loan-to-values to increase as a result of our annual review process. We don't expect significant increases in the near future. Genworth's estimate of property values has not fluctuated as much as some may expect, because we generally used above-market cap rates and underwrote loans using in-place income in the valuation of our properties.

The economic downturn is certainly affecting commercial real estate. However, we have a limited number of loans maturing over the next two years, with only 4% in 2010, 6% in 2011. So we are less concerned about potential refinancing risk.

In sum, I feel good about the progress we have made over the last 12 months and the capabilities that will enhance investment performance going forward. Looking ahead, market improvements, managing down risk positions, increasing sector and asset diversification and a solid commercial loan portfolio all bodes well for our investments and for Genworth.

With that, we will open it up to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mark Finkelstein, FPK.

Mark Finkelstein - *FPK - Analyst*

Good morning. I just wanted to dive a little bit more into the -- I guess the reserve per delinquency at the USMI company. I guess what I am trying to -- what I'm interested in is just how did you actually kind of calculate the estimated savings from loss mitigation? Is it based on paid experience? Can you just give maybe more of a granular color on what exactly was done to come to that estimate?

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President, CEO*

Sure, Mark, and good morning. Let me turn that over to Kevin Schneider. Kevin?

Kevin Schneider - *Genworth Financial, Inc. - SVP, President, CEO of USMI*

Morning, Mark. I think it is probably beneficial to start with just a reminder of what our process is for loss mitigation, because it is really an upfront focus on loans when loans are reported to us, rather than a focus on them at the point they go to claim.

We do this for both investigations and workouts, because we think it is a more effective way to get after those loans when a problem is apparent. What we then do is we go and we investigate those loans. We select the loans for investigation based on some of our models, our risk models, our analytics. We request those loans from our lenders. And then once they get into the system and the file is returned, we go through a review process. And depending on the length of the review, that could take two or three months to go through.

What you saw in this quarter as it relates to our reserve change is our reserve model and the selection of primary case loss reserve factors that we go through on a regular basis every single quarter incorporates historical claim and rescission data into the frequency and severity loss factor calculations. So in this quarter, our loss mitigation efforts, which we had been ramping up throughout the year and continued to identify rescissions that were executed. We continued to have increased delq development, so that increased the number of opportunities that we could go after and identify.

And then we began to see the actual realized benefits and improvement in that frequency factor that was driven by those rescissions. And so we, based upon our actual experience for the quarter, we take that frequency factor improvement that we realized as a result of rescissions, and it was applied back through our normal reserving process and had the resulted impact that Pat talked on for the quarter.

Mark Finkelstein - *FPK - Analyst*

Okay. And then I guess maybe --

Kevin Schneider - *Genworth Financial, Inc. - SVP, President, CEO of USMI*

Let me just add to that, Mark. Think of it this way. If you had the amount of change in improvement, driven by the rescission experience that we actually witnessed, is then built into the factors implied over the remaining delinquency base. Because there is many of those loans that we still have the opportunity to go and investigate and attempt to cure.

Mark Finkelstein - *FPK - Analyst*

Okay. That's helpful. And then I guess similarly, you raised the estimated loss mitigation for the year to 775 to 825. I assume kind of the explanation for that is similar to what you basically just gave me on the reserve per delinquency.

Kevin Schneider - *Genworth Financial, Inc. - SVP, President, CEO of USMI*

We have certainly continued to ramp up our focus on it. And as you see, the trended improvement in our overall loss mitigation savings over the past several quarters, that just continues to extend that out through the fourth quarter this year, on top of our year-to-date results of a little over $550 million.

Mark Finkelstein - *FPK - Analyst*

Okay. Is there any HAMP assumptions in that? I know it is less of an impact this year than next year especially, but is there any HAMP impact in that 775 to 825?

Kevin Schneider - *Genworth Financial, Inc. - SVP, President, CEO of USMI*

At this point in time, our HAMPs that have completed have had very little impact at all on our loss results. We have a significant ramp-up in the number of loans that have entered into the HAMP trial period. So we have absolutely no impact on our reserves associated with expectations on future HAMP performance. We will treat it the same way as we do our rescission activity -- when we see the actual experience, then we will include it in our results.

Mark Finkelstein - *FPK - Analyst*

Okay. That's perfect. Thank you.

Operator

Nat Otis, KBW.

Nat Otis - *KBW - Analyst*

Morning. I think I'll try to follow up on actually both those questions. Just following up on that reserve adjustment change, any way you can give a little bit of color into -- you talked about the change was related to certain types of delinquencies. Any way to give a little bit of color on what those delinquencies are that might be the clear ones that are driving the reserving change?

And if not, any way to get a little bit of color on what the actual mix is, product mix is, of what is really being successful from a loss mitigation standpoint right now?

Kevin Schneider - *Genworth Financial, Inc. - SVP, President, CEO of USMI*

That is a great question. When you look at where we are seeing the rescission experience, a lot of that activity, first of all, is in the '06 and '07 books. We've got a significant amount of it, particularly in the sand states, which were higher home price areas, higher loan balances as a result, and generally higher in specialty product content. So you sort of bleed those all in together, so it's the '06, '07 book in California, Florida, Arizona and Nevada, largely, and at higher loan amounts. And a lot of it is Alt-A.

So the actual experience then on those product types and on those loan types is then expanded out to the broader delinquency population, and hit those delinquencies that are more concentrated in those areas, as well.

Nat Otis - *KBW - Analyst*

Okay. All right. So it is pretty -- much right now, it is Alt-A, it's those sand states and it's the books of business that we would expect to be --.

Kevin Schneider - *Genworth Financial, Inc. - SVP, President, CEO of USMI*

I would think of it as the same product and type that has been driving our previous incurred performance up to this point in time.

Nat Otis - *KBW - Analyst*

Is there any idea what percentage it is of prime business?

Kevin Schneider - *Genworth Financial, Inc. - SVP, President, CEO of USMI*

I don't have that handy. But I would really say even if you think about our book, which was relatively low Alt-A concentration, a lot of the -- at the concentrations we have, it is throwing off a disproportionate amount of delinquencies. Therefore, you've got a lot more opportunities there, and that is what we're really seeing it from. Just not as much from the core book. It is much more the Alt-A; some of it the A- product. And the more fully doced product does not have as much rescission activity in it.

Nat Otis - *KBW - Analyst*

Okay, great. That makes sense. And just following up on your HAMP commentary, with that 11,500 HAMP loans that you say are included in HAMP, when you say included, does that mean they are in their three-month trial, or does that mean they've been given a HAMP offer?

Kevin Schneider - *Genworth Financial, Inc. - SVP, President, CEO of USMI*

At the end of the quarter, that number was loans that have actually been approved for the HAMP trial. By now, those loans are actually in the trial period. That is up from about 1200 loans at the end of the second quarter, so material ramp-up.

And I just think -- I think it is a good question. I'd like to elaborate on it just a little bit more, because there has been really a lot of discussion around the re-default rates around HAMP, and a lot of questions around is this program really going to work. And I've got to tell you, we remain cautiously optimistic about it and fully supportive of the government's efforts and the administration's efforts on both HAMP and HARP.

The way we look at our book, we say -- we think there is about 40% to 50% of our eligible delinquency population that could qualify for HAMP. So that, right off the bat, is a pretty big number if you look at our current delinquency population.

And then if on top of that you apply even a 50% re-default rate, which many are talking about as being something that is unsuccessful, I think we've got to think about it differently. 50% of that potential population would yield very large potential benefit results for us, when you compare that back to our current reserve per delinquency level.

Nat Otis - *KBW - Analyst*

Certainly, certainly. One then follow-up quickly on that re-default question. Probably haven't had a chance to think about it yet, but in the event that you had someone go through HAMP, go through the trial period, go into be a performing loan again, and then re-default, would you anticipate any change in your reserve methodology with that loan versus, say, a new 30-day delinquent loan?

Kevin Schneider - *Genworth Financial, Inc. - SVP, President, CEO of USMI*

No. Once they've gone through the process and they've successfully maintained and paid their loan for three months, and the documentation is closed, allowing them to close the modification -- and that is --- in all likelihood, it's going to take about six months to get there. At that point, if that became a performing loan, that is the way we would treat it. And the next time through, we would treat it through our normal case reserving process, as we do today.

Nat Otis - *KBW - Analyst*

Okay, great. Thank you.

Operator

Andrew Kligerman, UBS.

Andrew Kligerman - *UBS - Analyst*

Hey, good morning. Staying on the USMI, since it is so popular, I just want to make sure I understood Pat's comment earlier. He mentioned that the rescissions involved $135 million in a change or reversal in reserve assumption. Is that correct?

Kevin Schneider - *Genworth Financial, Inc. - SVP, President, CEO of USMI*

Yes, that is -- the after-tax impact of that rescission adjustment in our loss provisioning was 135 (multiple speakers) on the quarter.

Andrew Kligerman - *UBS - Analyst*

Oh, so it is an after-tax number. So if I applied that to your loss ratio, then that would be somewhere in the 120-ish percentage point benefit to reserves this quarter. Is that the right --?

Kevin Schneider - *Genworth Financial, Inc. - SVP, President, CEO of USMI*

Yes, you could essentially add it back into -- on top of our current reported loss ratio.

Andrew Kligerman - *UBS - Analyst*

Right, so I had thought that the XV arbitration charge, it would have been about 162%. It would have been closer to 282 without the rescission assumption, then, I suspect.

Kevin Schneider - *Genworth Financial, Inc. - SVP, President, CEO of USMI*

If you (multiple speakers) adding that back -- you're adding that back in on top of the number without the settlement.

Andrew Kligerman - *UBS - Analyst*

With the -- yes, because that is --

Kevin Schneider - *Genworth Financial, Inc. - SVP, President, CEO of USMI*

I think that is the way you ought to think about it, because that was a one-time event.

Andrew Kligerman - *UBS - Analyst*

Oh, okay. And then just very encouraging comments a moment ago about the 11,500 delinquent loans pending. If I understood that, you guys think that roughly 40% or 50% of these things can qualify for HAMP. And then of all your other delinquent loans, you think that 40% or 50% -- I'm sorry -- let me just take this back. You think 40% or 50% of your delinquent loans overall will qualify, correct?

Kevin Schneider - *Genworth Financial, Inc. - SVP, President, CEO of USMI*

Yes.

Andrew Kligerman - *UBS - Analyst*

And of these 11,500, are you getting the sense that half of them will actually get modified as you are applying? Are you that optimistic?

Kevin Schneider - *Genworth Financial, Inc. - SVP, President, CEO of USMI*

No, the way -- we simply do not have enough data yet to see what the flow-through is going to be out of the trial period. When I start with the 45% to 50% eligibility --the program is geared to owner-occupied homes. So if I just take a straight cut of owner-occupied homes out of our delinquency population, and then think about some of our other analytics about what it would take for a borrower to qualify at the 31 debt-to-income level target, that is how we get to the 45% to 50% level. But it is premature at this point to declare what we believe the trial period success rate will be.

Andrew Kligerman - *UBS - Analyst*

Okay, but you feel somewhat optimistic around it?

Kevin Schneider - *Genworth Financial, Inc. - SVP, President, CEO of USMI*

Yes, I remain optimistic around it. I really think that -- there is a lot of discussion around this in the marketplace. And if we were at 100% success rate, we are simply not targeting enough borrowers. And so while we will certainly be going after impacting a re-default rate that is above -- that is below 50%, again, even at a 50% level we are optimistic that will help materially.

Andrew Kligerman - *UBS - Analyst*

Okay. And then I just want to kind of round out on this, to get back to where I really wanted to go. So if you take that 280-ish percent loss ratio that I would estimate for this quarter X the rescissions, and I think I heard Pat mention earlier that there is an expectation the delinquency rate should come down a little bit more even in the fourth quarter, despite the fact that 4Q is high in seasonality.

Where do you think the loss ratio can go from that 282? I mean, should we see a sharp falloff? Should we see it kind of hanging around at the 280 level for the next several quarters? What kind of trajectories can we expect over the next few quarters?

Pat Kelleher - *Genworth Financial, Inc. - SVP, CFO*

I would like to offer a perspective on at least how I am looking at the loss ratios. The math of your calculation is correct, but I would suggest that the change in the loss ratio associated with the demonstrated effectiveness of loss mitigation activity should be viewed as a measure of the effectiveness of the program. And from our perspective, in terms of best estimates of the portion of delinquencies which will ultimately develop into losses, a rescission is just as good as a cure via other means. So that, from my perspective, has been a positive development which brings down our loss ratio.

And with respect to the other comment on continuing impacts, we didn't indicate that the delinquency rate would be expected to decline in the fourth quarter, but we did indicate that due to this ongoing activity, as well as due to the changing mix of business, that the reserve per delinquency should continue to trend down. And that is really a measure of both that mix of business change, as well as the ongoing effectiveness of the loss mitigation programs.

So I would view expected loss results in the context of after the impact of loss mitigation.

Andrew Kligerman - *UBS - Analyst*

Okay. So the starting point should be closer to this 162 XV arbitration charge, not that 280-ish number.

Pat Kelleher - *Genworth Financial, Inc. - SVP, CFO*

Yes.

Andrew Kligerman - *UBS - Analyst*

Okay. And no color around the quantity of delinquencies going forward? It is just the reserve per delinquency? Okay, I mean I guess -- I will take it off-line. But I'm -- maybe I'm thinking of it the wrong way, but I'm thinking this rescission assumption change is more of a one-time thing. But you are saying that this could continue forward. And I will take more detail off-line. But do you actually think it can go forward?

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President, CEO*

Andrew, it is Mike, and let me give it to Kevin for a little more color. But I mean, just remember, this is current experience, and this is real benefit. And as Pat said in his remarks, we see as we move into next year material benefit continuing to come from loss mitigation as you build off this base. So you are going to have more modification benefit content.

Kevin, do you want to provide any additional color?

Kevin Schneider - *Genworth Financial, Inc. - SVP, President, CEO of USMI*

I do -- I would like to provide some additional environmental color for everybody on the phone, because I think it will be helpful.

We have four months of home price improvement that we've recognized in the marketplace. We've seen some stability develop in the marketplace. Total inventory is down in that -- through September, about 7% from where it was, which is really the lowest level of available unsold inventory since April 2006. So we are seeing some encouraging signs of market stabilization.

But we remain cautious on potential further unsold inventory pressure associated with foreclosures. As a result, we continue to manage our business assuming there is going to be some downward pressure on home price appreciation. And at this point in time, if you think about that on a National Association of Realtors basis, we are still managing the business thinking it may go down 10% more before it is all over. And on a FHFA index, which we think probably more resembles really our book portfolio, we think there is potential seven more points of decline there.

The reason that is important is that, coupled with ongoing pressures on unemployment, because unemployment -- our belief is going to tick up a little bit above 10%, and trend that way for a fair amount of next year, until we see it start to come down -- that is going to pressure delinquencies going forward. So we are going to continue to see a little bit of delinquency build.

What I think you will see is continued opportunity to drive down our reserve per delinquency. Because the delicacies are beginning now to come from lower loan balance states. They are not as concentrated in the specialty product and the high loan price states. And so that mix is starting to be effective and run through our provisioning, as well as the real live benefits of those loss mitigations.

So I hope that will help you think about it going forward as we close up this year and enter into 2010.

Andrew Kligerman - *UBS - Analyst*

I think this is great color. I guess with so many contra -- pros and cons going in different directions, do you think we go up from here in terms of loss ratios or do we go down? I'm going to keep it really blunt.

Kevin Schneider - *Genworth Financial, Inc. - SVP, President, CEO of USMI*

Well what I would do if I was you is just stay tuned.

Andrew Kligerman - *UBS - Analyst*

Stay tuned? Optimistic or pessimistic? I'm going to stay tuned. I just want to know whether to be optimistic or pessimistic.

Kevin Schneider - *Genworth Financial, Inc. - SVP, President, CEO of USMI*

We are focused on executing our strategy, and we will continue to update beyond this -- hopefully, potentially at our Investor Day and at the next quarter call.

Andrew Kligerman - *UBS - Analyst*

Okay, I've got some follows, but I will get out and get back in the queue for later.

Kevin Schneider - *Genworth Financial, Inc. - SVP, President, CEO of USMI*

Thank you.

Operator

Donna Halverstadt, Goldman Sachs.

Donna Halverstadt - *Goldman Sachs - Analyst*

Good morning, and congratulations on your quarter. I had one strategic question I wanted to ask about mortgage insurance. And I know there is a time and place for everything and running it on a self-contained capital perspective is I understand where you needed to be. But at some point going forward there will be the next strategic decision taken.

And I'm not going to ask you to speculate on what that might be, but I'm curious about the timeframe. And when you think about strategic alternatives for USMI, will you want to wait to finalize your own internal decisions until it is clear what the outcome will be of the administration's actions related to the GSE's structure and roll and charter, or would you like to finalize your own decisions before the GSE topic is resolved?

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President, CEO*

I'll give you a few different perspectives. First, let me start at the end. It could take some amount of time to figure out what the public policy and governmental approach will be regarding the GSEs. So that is one that we will closely monitor, and along with others in the mortgage industry and the mortgage insurance industry, be engaged in that dialogue. And we'll just have to see where that goes.

Second perspective I would provide is it is clear that we've approached this market and taken our business platform and approached it aggressively to improve the business model. And here is a business model where we basically now doubled the effective returns, with some upside. We've taken down the volatility. We've taken up the quality. And we have great capital strength.

So the way we are approaching this is we have a lot of value -- shareholder value to re-create here. And that is what we are focused on doing. Kevin and the team have done a wonderful job on that front, continue to execute very well on that front. It is good, frankly, for America, because you need that counterparty risk in the lending system. And we are also a big proponent of spreading good underwriting practices, and we are going to be very energetic on all of those fronts.

Longer-term, your implicit question is how are you going to manage your mix of business. And we, like others, will always look at our portfolio over the years. We will look at that strategically. We will actively manage it. Any calls on how you would change that mix specifically would be premature. As I've shared in other conversations over time, I would expect Protection and Retirement content and the enterprise to come up, given our international positions, our domestic positions. And where we have housing-related exposure, to be very focused on where we can, indeed, win, and have these very attractive risk return models.

And certainly the pruning we've done, both internationally and how we focus domestically, has shown we have that model in place right now. So those would be the three ways I would suggest you think about it.

Donna Halverstadt - *Goldman Sachs - Analyst*

Okay. One quick follow-up. I agree you have moved aggressively to improve that business model. Do your comments imply that beginning to see that capital in the near to intermediate term might be on the table?

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President, CEO*

Again, I would think about that in three steps, too. First, we have a lot of excess capital in the business. And we -- because we moved early, we pulled out of certain markets and products, managed our volume carefully, were very early and proactive on the risk mitigation and loss mitigation front -- we've created capacity to participate in the rebound of the market. And Kevin's commercial team is very focused on doing just that.

Second is you have heard talked about in the industry, we've continued to actively study, perhaps some similar, but with some differences approaches, in such things as legal entity stacking that create additional flexibility and capacity. So that is your second line of flexibility to support growth.

Third, it gets to be a different question, which says when you have a business that is making mid-20s returns and performing up north of that, and probably will perform north of that for new business, would you consider, if you've moved through those first two steps, giving it some additional capital on that front. At those returns with those risk profile, the answer is sure. We just don't see that as anything immediate, because there is tremendous flexibility that Kevin already has in the business. But that is a way to think about it.

Donna Halverstadt - *Goldman Sachs - Analyst*

Okay, great. And the last quick question is actually on Retirement and Protection. I've been very curious to watch some of the retooling you've done with respect to product and target customers. And you talked about a lot of positive traction you are getting in that business.

Can you just comment on what things you are most focused on continuing to do as you retool that business, and overall, what inning you feel you are in with respect to that transition?

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President, CEO*

Well, I will just provide a general comment and turn it over to Pam Schutz. We've made great progress. When you make choices, you focus on your leadership positions, you really engage with your distribution, you can get very positive energy going. And I would say that is exactly where we are.

Let's go to this more specifically on the platforms. Pam, you want to take that?

Pam Schutz - *Genworth Financial, Inc. - EVP of Retirement and Protection*

Yes, just let me make a few points. And one is we are very pleased with our leadership lines that are life, long-term care and wealth management. We have very strong competitive positions today in the industry, and we believe we have upside in those as we take that forward.

In addition, we have been very smart about our targeted lines of annuities and Medicare supplement to focus on those distributions and those products where we can win and achieve good returns.

Having said that, we as we look forward, we are looking at sequential sales that are improving in our leadership lines, as well as in variable annuities. We are putting on good new business at good returns, which will bode well for the future of the business.

In addition, as was mentioned earlier, we are looking at good fundamentals of good mortality in our life business and loss ratios in long-term care, good margins in wealth management. And as you look at the earnings power going forward, two levers. One is putting cash back to work, as well as improved investment performance. So all in all, we are very optimistic about taking this business forward.

Donna Halverstadt - *Goldman Sachs - Analyst*

Thanks for taking my questions.

Operator

Ladies and gentlemen, we have time for one final question, and that will come from Eric Berg with Barclays Capital.

Eric Berg - *Barclays Capital - Analyst*

Thanks very much, and good morning. I have two questions. First, pardon me -- first, given the extraordinary declines that we've seen in housing prices in some parts of the country, more than 50%, why would you be doing -- why would you be insuring 95% loan-to-value loans? It would seem like the 5% cushion could easily be erased, given recent history. Is it that you just feel you can price for it, or --? It just strikes me as curious, given what we've just gone, to be increasing the maximum LTVs.

Kevin Schneider - *Genworth Financial, Inc. - SVP, President, CEO of USMI*

I'll take that one. First of all, when we think and look at what is going on in home price decline, we look at it at a granular MSA level. And so we are looking and tracking how it has performed ever to date, from the peak to the curve point of the cycle, and what our expectation is going forward, from now until the ultimate trough of the cycle.

So our recent expansion -- and we've been -- you've got to remember, we've been doing 95s throughout the year in places that weren't on our declining market list, and our performance from a delinquency standpoint on that production has really been quite attractive, very, very low delinquency levels.

Going forward, we have, number one, increased pricing on our 95s, above the level of performance variance that we've seen between the 90s and 95s historically through time. So we think we've got sufficient price.

We think that the collateral and the loss ratios on the box that we are currently underwriting and insuring today, even through this most recent cycle, will stand up to the pricing and stand up to the performance that we've seen on it.

And then I think you've got to remember, we moved pretty aggressively early on for our book, and we were really -- pulled in our horns on this early on in the cycle. We've weathered through it. We are starting to see stability coming out the other side. And we think it may in fact just be an ideal time to be doing this, still cautiously, still prudently and properly underwritten, with the elimination of almost all the stacked risk factors that were running through this production throughout the industry up to this point. We just feel solid about our risk analytics right now and our expectation of that performance.

Eric Berg - *Barclays Capital - Analyst*

Second and final questions relates to Lifestyle Protection. You mentioned that you'd be raising prices, but that you've also been changing products and doing things differently with your distributors. Can you provide a couple of -- just one or two illustrations of the product changes that you made to make this concrete rather than abstract, and just tell us how you're changing the relationships with your distributors to mitigate losses? Thank you.

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President, CEO*

Eric, I will give that to Tom Mann. Tom.

Tom Mann - *Genworth Financial, Inc. - EVP of International*

I thank you for the question. Let me back up from distributors -- with the first part of the answer, and that is that what we have done in Europe across the board is fundamentally decreased our exposure to the unemployment cover that we offer. So we've pretty much done that with all distributors, where we felt that we had excessive unemployment exposure and what we see as the environment for the next three or four years.

Let me talk to you a little bit about repricing, and I will try to do this succinctly. I think the important thing to remember is that the majority of distribution arrangements that we have in place run about three years. So what we have done is enter into a repricing strategy with those various distributors in the context of the three-year time span that we have. All of our contracts have repricing triggers when we have losses that exceed certain thresholds.

So what we've done is really three things. We are working to reprice all the contracts that we have today or distribution arrangements where the loss ratios have been breached. Secondly, we are working with those lenders to reprice agreements where we think we may be trending towards these higher losses. And last but not least, when we have solid performance with lenders, although we may be decreasing our unemployment exposure, we will work to reprice those when their normal contractual renewal period occurs.

With regards to the structures, we look at it three ways. We have the opportunity to increase the price to the consumer on our new business. We have the opportunity to adjust our commission rates, which puts more revenue into our pockets, into our system, if you will, for purposes of covering losses.

And more specifically to your questions, we can revise the terms and conditions. A simple example of that is that we may reduce the duration of coverage for unemployment cover, as an example.

And so it is really -- there are a lot of distributors and it's a mixture of those three things that we are doing. As Pat mentioned to you, we've identified those clients that we think are going to have the most material impact on our operating income. We are about 20% through that repricing effort through the quarter. 60% to 70% through by the end of the year.

And you are going to start seeing it -- although the results this quarter were not that strong, you are going to begin to see a very nice incremental build on a quarter-by-quarter basis as more of our in force book would reflect all the actions I just took you through.

Eric Berg - *Barclays Capital - Analyst*

Great. Great response. Thanks, Tom. And all the best to you.

Tom Mann - *Genworth Financial, Inc. - EVP of International*

Yes, sir.

Alicia Charity - *Genworth Financial, Inc. - SVP of IR*

I thank you all for your time this morning. Unfortunately, we have run over our time and there are a number of people who didn't get to ask questions, so I apologize. I will be available all day to answer any remaining questions. Thank you.

Operator

Ladies and gentlemen, this concludes Genworth Financial's third-quarter earnings conference call. Thank you for your participation. At this time, the call will end.
