

World Bank/International Finance Corporation Global Housing Finance Conference

Mortgage Guaranty Insurance
in the United States of America

by

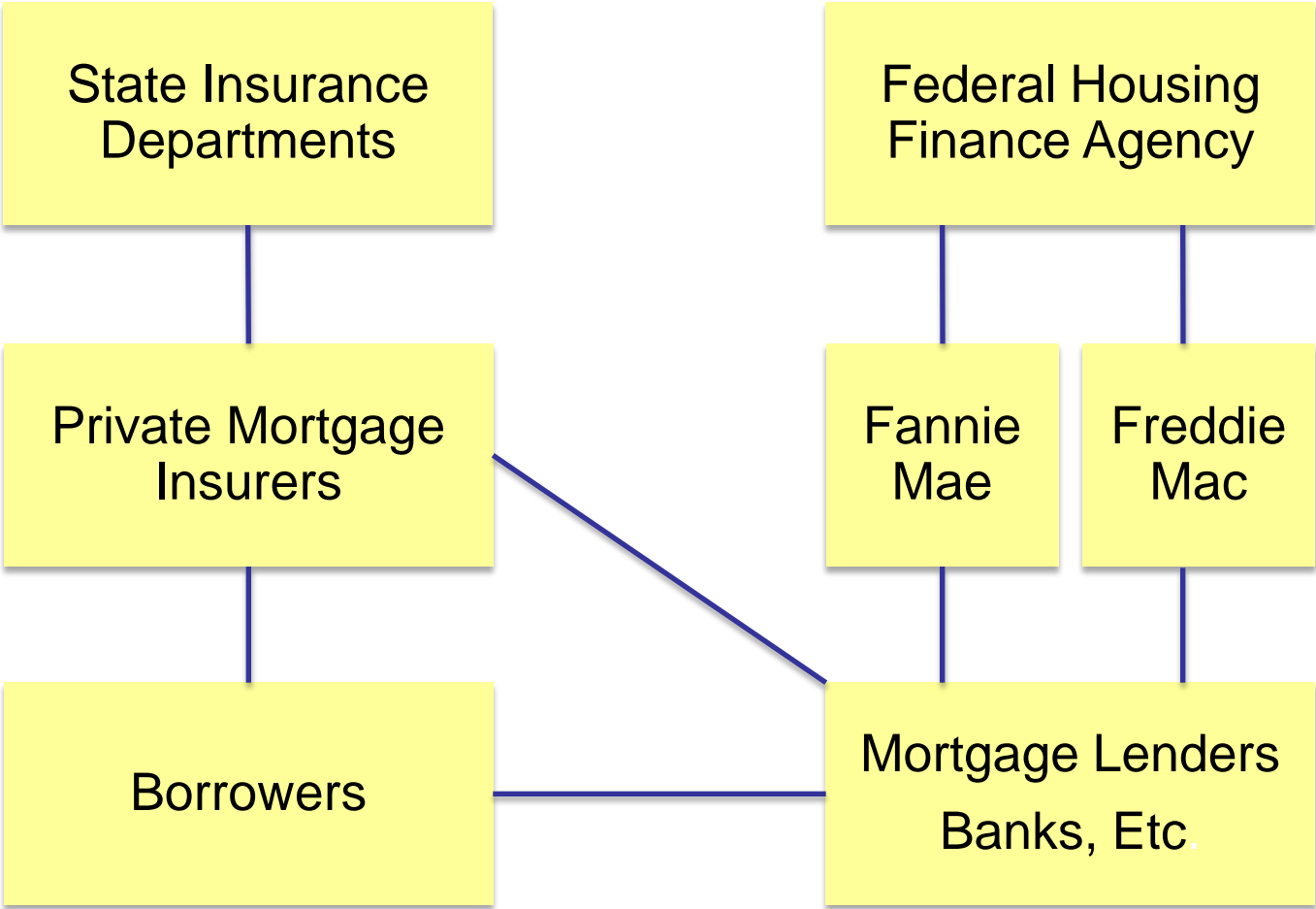
Theodore K. Nickel
Wisconsin Commissioner of Insurance
Thursday, May 29, 2014



Background

- What is Private Mortgage Insurance (PMI)
- Benefits PMI is expected to provide
 - Lower down payment facilitates earlier home ownership and building up of equity
 - Automatically cancelled when no longer needed
 - Assistance with financial challenges
 - Credit enhancement
 - Increased capacity of lenders
- Traditional Factors in Mortgage Default
 - Unemployment
 - Medical expenses
 - Divorce

Important Relationships in Mortgage Insurance



Key Features of Current PMI Regulation

- The existing housing finance structure in the United States has its origin in the response to the Great Depression
- Policyholder and claimant protection the chief consideration
- Must be conducted by licensed insurers. No sales on a surplus lines basis.
- Monoline requirement
- The mortgage lender and the mortgage guaranty insurer are not affiliated
- Mortgage guaranty insurers are not to invest in mortgages or mortgage-backed securities. It is irresponsible to back promises to cover defaults on mortgages with investments in mortgages
- The premium income of the mortgage guaranty insurer is allocated by law into unearned premium reserves, contingency reserves, and case-loss reserves
- Commissions, rebates, fees, and other compensation strictly prohibited for placement or purchase of PMI
- Race to the top capital standard

Causes for Recent High Volume of Losses

- Accumulation of Risk Factors during the 2000's
 - LTV greater than 95%
 - Total Debt service to Income (>35-38%)
 - Principal, Interest, Taxes and Insurance to Income ratios (>25-28%)
 - Loans on Investor Properties
 - Loans with Cash Out Refinances
 - Limited Documentation/No Documentation Loans
 - Lower FICO credit scores
 - Bulk Wall Street Insured Loans
 - Alternative Mortgage Instruments
 - i.e. subprime, teaser rates, negative amortizations, interest only, option ARMS, etc.

Causes for Nonpayment of Claims

- Policy Rescissions
 - Appraisal Issues
 - Overstatement of Borrower Income
- Rehabilitation/Receivership
 - Deferred Payment Orders
 - Orderly and Equitable Distribution of Available Assets

States' Mortgage Guaranty Reform Initiative

- Reform initiative coordinated by the National Association of Insurance Commissioners
- Lessons from the Great Depression retained
- Required minimum underwriting and quality assurance standards
- Prohibit captive reinsurance arrangements with originating or servicing banks
- Require regulatory approval for reinsurance transactions
- New risk-based capital requirement that takes into account housing prices, unemployment levels, and specific loan characteristics
- Company-specific capital and reserve adequacy studies required for any insurer that fails risk-based capital requirement
- Better definition of rights and responsibilities for rescission of coverage