USMI
U.S. Mortgage Insurers

It's Time to Reform the Housing Finance System

The housing finance system needs to be put on a more sustainable path so that creditworthy borrowers will have access to prudent and affordable mortgage credit well into the future, and taxpayers are better shielded from housing related credit risks. Private mortgage insurance (MI) already plays a critical role in providing access to mortgage credit and protecting taxpayers, and is an essential part of a smooth transition and any future housing finance system, consistent with the following principles for reform:

- **Protect Taxpayers. Private mortgage insurance (MI) and other forms of private capital should absorb all credit losses in front of any government guaranty.**
  - Private capital should be the preferred method to minimize taxpayer risk, primarily through loan-level credit enhancement that is well capitalized and available throughout all housing market cycles.
  - A government guaranty should be remote – drawn on only in catastrophic scenarios.
  - There should be comparable and equivalent standards for all forms of credit enhancement, including regulatory oversight, regulatory capital, reserves, and leverage and liquidity requirements.
- **Promote Stability. A goal of the reformed system should be to promote stability in housing finance.**
  - In order to maintain a stable secondary market for 30-year fixed-rate mortgages across housing market cycles, the federal government should provide an explicit guaranty on qualifying mortgage-backed securities (MBS).
  - The federal government also has an important role to play in formulating mortgage lending and servicing standards to promote stability and responsible behavior by all stakeholders. Uniform guardrails across lending and insuring channels would ensure that taxpayers, borrowers, and lenders are adequately protected from the consequences of mortgage default.
  - Reform should utilize the parts of the system that work for borrowers, lenders, and other participants while allowing for sufficient time and flexibility to ensure stable transition.
- **Ensure Accessibility. A reformed system should ensure broad access to mortgage finance for creditworthy borrowers and participation by lenders of all sizes and types.**
  - Loan-level credit enhancement can facilitate low down payment lending to creditworthy borrowers, especially when placed on mortgage loans before they are guaranteed by the federal government.
  - To ensure lenders of all sizes and types can participate in the market, no lender should receive discounts on fees based on volume or market share.
- **Foster Transparency. There should be a consistent, transparent, and coordinated approach to the federal government's housing policy among all government agencies and entities.**
  - The government guaranty should be priced in a transparent manner to reflect losses and fully take into account all the risk-reducing benefits of credit enhancement.
  - Federal policy should clarify which borrowers should be served by the conventional market and which are better served by the government-insured market (e.g., FHA). Limits on loan size and/or borrower income are effective tools to define the conventional and government markets, and ensure that government insurance programs do not extend beyond their mission borrowers.

MI is an essential part of the housing finance system. U.S. Mortgage Insurers (USMI) is dedicated to a housing finance system backed by private capital that enables access to housing finance for borrowers while protecting taxpayers. USMI is ready to help build the future of homeownership.