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BANK THINK

How Mortgage Insurance Can Improve Credit Access

By Rohit Gupta And Adolfo Marzol

Policymakers, consumer advocates and housing industry experts are coming to a consensus that the credit pendulum has swung too far in the aftermath of the housing crisis. Many credit-worthy borrowers — especially first-time homebuyers — are having a hard time gaining access to affordable homeownership opportunities.

In order to improve mortgage credit access while avoiding the risks that led to the last crisis, we must recalibrate the status quo. Private mortgage insurance offers one effective way to make mortgage credit available to more people.

The mortgage insurance industry is vitally important for customers facing prohibitive down payments — one of the biggest hurdles to homeownership for many families. According to the Center for Responsible Lending, middle-income workers such as firefighters and teachers would need to save for approximately 20 years for even a modest 10% down payment on a $158,100 home — the median price in 2010.

For many prospective homebuyers, private mortgage insurance offers real help. It accounts for one of every three recently insured low-down-payment loans. And 43% of all private mortgage insurance loans to purchase a home go to first-time homebuyers, according to data from our trade group, U.S. Mortgage Insurers.

If economic conditions turn adverse, insurance coverage provides lenders with significant protection. And if the loan was sold to the GSEs, private mortgage insurance is in the first-loss position in the event of a default — before taxpayers are put at risk. In fact, since Fannie Mae and Freddie Mac entered conservatorship, private mortgage insurers have covered approximately $43 billion in claims, resulting in a substantial savings to taxpayers.

Recent regulatory changes put the industry in an even stronger position to support our nation's housing finance priorities.

On Oct. 1, revised master policies developed to meet standards set by the GSEs under the oversight of the Federal Housing Finance Agency went into effect. These policies offer new assurances about mortgage insurers' consistent handling and payment of claims and greater transparency about the contractual protections for lenders and investors with regards to representations and warranties. These enhanced contracts will give lenders greater confidence to offer home loans backed by private mortgage insurance.

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The FHFA is also directing the adoption of updated standards that determine when a mortgage insurance company is eligible to insure loans that the GSEs purchase or guarantee. When finalized, these tougher standards will require insurers to have a minimum of $400 million in liquid assets on hand to pay claims on defaulted mortgages. Ultimately, by establishing more rigorous financial standards and comprehensive business, risk management and operational requirements for mortgage insurance companies, the changes will confirm the long-term value of private mortgage insurance for borrowers, lenders and taxpayers. Members of U.S. Mortgage Insurers are also working with state insurance regulators as they update state insurance laws to incorporate lessons learned from the downturn.

Looking forward, there are even more opportunities for reform. One way to improve housing affordability is for the FHFA to ensure that mortgage insurance is fully recognized when GSE guarantee fees are calculated. We believe that the current fees fail to fully take into account the risk-reducing impact of private mortgage insurance. As a result, consumers are overcharged, putting low- and moderate-income and first-time homebuyers at a disproportionate disadvantage.

Another way to promote responsible homeownership would be for FHFA to restore widespread consumer access to prudently underwritten 97% loan-to-value fixed-rate mortgages made by lenders and sold to the GSEs with private mortgage insurance. Responsibly underwritten low-down-payment loans have a long track record of good performance, and they play a critical role in ensuring broad access to affordable options for qualified borrowers.

Finally, Congress should permanently restore the longstanding tax-deductible treatment of mortgage insurance premiums, which expired at the end of 2013. These premiums are the economic equivalent of mortgage interest payments, which remain deductible.

Ultimately, Congress and regulators should work together to further expand sustainable access to credit while increasing the industry's reliance on private capital. This latter effort will help protect taxpayers, who bear substantial exposure to mortgage credit losses through the GSEs. Private mortgage insurance is already expanding homeownership access and protecting taxpayers, but there is still more work to be done.

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