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USMI Testifies on the Role of Private MI and FHA, The Need to Strike the Right Balance for Taxpayers

Rohit Gupta, President and CEO of Genworth Mortgage Insurance and Chair of U.S. Mortgage Insurers (USMI), testified before the House Financial Services Committee Housing and Insurance Subcommittee today on behalf of the private Mortgage Insurance (MI) industry. The hearing, "The Future of Housing in America: Oversight of the Federal Housing Administration, Part II" followed a February 11 hearing featuring Housing and Urban Development Secretary Julian Castro on the condition of the Federal Housing Administration (FHA) Mutual Mortgage Insurance Fund (MMIF).

Gupta's testimony focused on the recent decision to lower annual mortgage insurance premiums at FHA, which has generated much debate on the relative roles of government and private capital in supporting homeownership while also protecting taxpayers. Potential homeowners without the ability to make a 20 percent down payment currently have two options for the mortgage insurance necessary to obtain a mortgage: either from the government-backed FHA program, or from private mortgage insurance (MI). Gupta pointed out that while these options may sound similar, from a public policy perspective, they are quite different, especially when it comes to the impact on taxpayers.

Key differences are:

- Underwriting Incentives – FHA covers virtually 100 percent of losses if a loan defaults, which may provide less incentive to ensure that loans are underwritten and serviced in a prudent and sustainable manner. By contrast, MI covers first losses down to a stated coverage percentage, creating a strong incentive for prudent underwriting and good servicing.

- Taxpayer Impact – In the wake of the financial crisis, the FHA insurance fund required $1.7 billion from U.S. taxpayers due to a capital shortfall. In contrast, MI private capital covered over $44 billion in losses on loans sold to the GSEs since they entered conservatorship, losses that otherwise would have been shouldered by taxpayers.

- Capital and Oversight Requirements – FHA capital reserve standards are lower than MI. FHA is required to be at a minimum capital ratio of 2 percent of risk insured but is currently at only a 0.41 percent capital ratio, one fifth of the two percent statutory minimum. MIs are required to be at a minimum risk to capital ratio of 4 percent, and all MIs are reporting risk to capital ratios at or above 5 percent. MI's will be required to meet even higher capital standards under revised GSE Private Mortgage Insurer Eligibility Requirements (PMIERs) that are due to be finalized later this year.

"FHA and private MIs can and should serve as complementary forces that enable the FHA to remain focused on its fundamental mission of serving underserved markets," said Gupta. "But for this model to work properly, it is critically important that the FHA not stray too far afield from that mission."

"The recent decision to lower annual mortgage insurance premiums at FHA…has two immediate consequences: (1) it slows the trajectory of FHA attaining the 2% minimum capital requirement; and, (2) it limits the…return of private capital to support U.S. housing finance," Gupta continued.

A copy of Gupta's testimony submitted to the Committee is available here which includes a sideby-side comparison of the protections for taxpayers from MI vs. FHA.

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About USMI

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. Mortgage insurance (MI) offers an effective way to make mortgage credit available to more people. USMI is ready to help build the future of homeownership.
