

PRIVATE MI: A SOURCE OF STRENGTH & RESILIENCY IN THE HOUSING FINANCE SYSTEM

Coming out of the Great Financial Crisis, all mortgage market participants implemented enhancements to ensure the industry was better positioned to withstand market downturns and maintain the sustainable availability of mortgage credit going forward. Seventeen years later, combined with updated regulatory requirements, these enhancements have dramatically strengthened the mortgage finance system, providing prudent access to mortgage finance credit and safeguarding the housing market and broader financial system. **Today, private mortgage insurance (MI) stands as a strong, resilient, and reliable component of America's housing finance system, serving as the first layer of protection against undue credit risk and supporting homebuyers, lenders, the government-sponsored enterprises (GSEs), and taxpayers.**

Facilitating access to home financing for borrowers without large cash down payments while providing stability to the nation's housing finance system remains a top priority for federal policymakers and industry stakeholders. This mission is shared by the private MI industry. The aftermath of 21st century economic crises, including the Great Financial Crisis and the COVID-19 pandemic, have underscored: 1) the benefits of private capital serving as a first layer of protection against undue credit risk in front of taxpayers and the federal government, and 2) the need for sustainable access to low down payment lending in the conventional market to serve qualified borrowers who face homeownership affordability challenges.

MARKET & REGULATORY ENHANCEMENTS POST-CRISIS	
Private MIs	In addition to higher capital and more robust operational standards through Private Mortgage Insurer Eligibility Requirements (PMIERs) and updates to the Master Policy, private MIs now conduct much more diligence, even on delegated underwriting loans, than was previously done. In fact, a significant increase in the industry's business is through non-delegated underwriting, which has tripled since the Great Financial Crisis, compared to the MI industry's historical rate of 10%-15% prior to the Great Financial Crisis. In addition, through private MI's Rescission Relief Principles, lenders have certainty from day one regarding the clarity of private MI coverage. Quality control requirements ensure fraud prevention and data accuracy in mortgage underwriting.
PMIERs	PMIERs are the operational and capital requirements for private mortgage insurers to be approved to insure loans acquired by the GSEs. Most recently updated in 2024, the standards provide even greater confidence to market participants and policymakers. USMI members collectively hold more than \$9.3 billion in excess of these requirements, representing a 165% sufficiency ratio.
MI Master Policy	The MI Master Policy was significantly revised in 2013 with input from the FHFA to clarify terms, streamline claim payments, and establish detailed conditions for rescission, improving reliability for lenders. A common Master Policy, promoting consistency in loss mitigation and foreclosure prevention efforts, was developed by USMI members in 2019 and took effect on March 1, 2020.
Rescission Relief Principles	First published in 2013 and revised in 2017 to align with the updated GSE Representations & Warranties (R&W) framework, the Rescission Relief Principles introduced automatic relief after 36 timely payments and early relief after 12 timely payments with a full file review. These principles have been well-received by the industry, enabling greater rescission relief and reinforcing the private MI industry's ongoing support for borrowers in challenging circumstances.
MI-CRT	MI Credit Risk Transfer (MI-CRT) structures enable private MI companies to enhance their ability to be more stable, long-term, active managers of risk. MI-CRT structures have developed and grown since 2015, transforming the business model from "Buy-and-Hold" into "Buy-and-Actively Manage."

The housing market currently presents many challenges for prospective homebuyers trying to access homeownership. These challenges include high home prices in many geographies, significantly elevated interest rates driven by inflation compared to a few years ago, and constrained housing inventory. The private MI industry is dedicated to serving low down payment borrowers while ensuring safety and soundness in the housing finance system.

For nearly 70 years, the private MI industry has served lenders, the GSEs and, since 2008, taxpayers as an effective and resilient form of private capital, standing as the first layer of loss-absorbing protection against undue credit risk and mortgage defaults. **Private MI has enabled affordable and sustainable homeownership for nearly 40 million households¹** over the past nearly seven decades. Since the Great Financial Crisis, private MI has become more resilient with enhanced capital and operational standards, as well as increased active management of credit risk, cementing the industry's ability to meet to meet borrower demand and serve as a source of reliability and resiliency in the housing finance system across all economic cycles.

"PMI has been the most common execution for low-down payment borrowers since 2018." – Urban Institute Analysis

In 2024 alone, **more than 800,000 borrowers purchased a home or refinanced a loan with private MI,² accounting for approximately \$300 billion in mortgage volume.³ Approximately 65% of purchase loans with private MI went to first-time homebuyers⁴ and 35% had annual incomes below \$75,000.⁵ There are more than \$1.4 trillion in mortgages guaranteed by the GSEs with private MI protection.⁶** Private MI is one of the only forms of credit risk transfer (CRT) that begins on day one when the borrower assumes a mortgage, and persists regardless of execution, including GSE acquisition, private securitization, or portfolio status, until cancellation or automatic termination occurs after sufficient equity is established, unlike the government forms of MI that typically persist for the life of the loan.

MAKING PRIVATE MI STRONGER AND MORE RELIABLE

After assessing past operational practices and the causes and implications of the 2008 downturn, the private MI industry took appropriate steps to strengthen its business model to better serve low down payment borrowers and protect the GSEs and taxpayers. With that goal, some of the enhancements made include:

PAST	PRESENT
Exposure-based capital (Statutory)	Risk-based capital (updated PMIERS)
Relatively static pricing with rate cards	More granular, risk-based, and dynamic pricing
Manage risk through credit policy	Manage risk through credit policy <i>and</i> pricing
Focus on avoiding adverse credit selection	Proactive portfolio selection based on economic value
"Buy and Hold" risk-taking	Active risk manager

MORTGAGE INSURERS’ ABILITY TO PAY CLAIMS:

Private Mortgage Insurer Eligibility Requirements (PMIERs)

PMIERs consist of operational and capital requirements for private mortgage insurers to be approved to insure loans acquired by the GSEs. These were updated in 2015, 2018, and 2024 to provide even greater confidence to market participants and policy makers. These have met the objectives they were seeking and private MI is well regarded as a permanent, dedicated source of first-loss credit risk protection and as a trusted “second pair of eyes” to protect long-term value in the housing finance system.

The GSEs’ PMIERs were significantly revised in 2015 and have been subject to periodic review. USMI member companies have maintained levels significantly above the PMIERs requirements, and USMI members collectively hold more than \$9.3 billion in excess of these requirements, representing a 165% sufficiency ratio.⁶ The private MI industry has consistently raised capital, collectively attracting \$19.5 billion in new capital since 2008 through equity offerings, debt issuances, and access to credit facilities.⁷

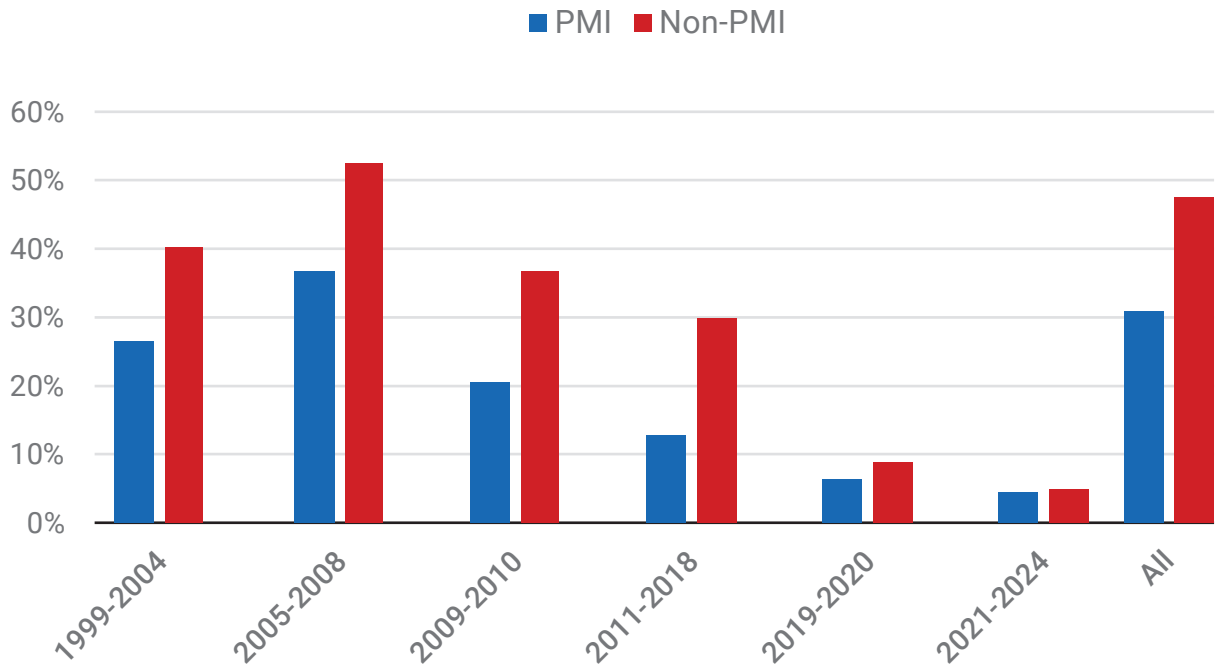
KEY COMPONENTS OF PMIERs	
Financial Requirements	Ensure “[a]pproved insurers have adequate liquidity and claims-paying capacity during periods of economic stress”
Risk-Based Capital Standard	Establishes minimum required assets of 5.6%
Business/Operational Requirements	Identify, measure, and manage exposure to counterparty risk
Quality Control Requirements	Set for underwriting and eligibility guidelines, data accuracy, and fraud prevention
Dictate Allowable Timeframes	For document request, claim perfection, and decision of claims

PMIERs created a strong foundation for efforts to further “de-risk” the GSEs through the expanded use of private capital with MI. This builds on the industry’s track record of providing dedicated private capital ahead of the GSEs and taxpayers, as evidenced by the nearly \$60 billion in claims paid since the GSEs entered conservatorship in 2008.⁷ However, PMIERs available assets are only one source of private capital that is available to pay claims during times of economic stress. Other sources of private capital that exist and are first used to shield the government and taxpayers from credit risk include future premiums, reinsurance recoverables, and funds booked from single premium plans. Notably, private MIs work closely with servicers and the GSEs to offer solutions to borrowers experiencing financial hardship to promote home retention.

Analysis from the Urban Institute¹⁰ has consistently found that once loans were more than 180 days delinquent and were liquidated, “the loss severity the GSEs experience is lower for loans with [private MI] than for those without, because mortgage insurance recoveries reduce losses.” The report also noted that “the reduced loss severity for the GSEs attributable to [private MI] holds across all origination years.” **Based on the 1999-2024 origination period, the loss severity of GSE loans without private MI was 47.9 percent, higher than the 31.2 percent severity for loans with private MI.**

“The presence of [private MI] reduces the losses the GSEs experience on loans with LTV ratios above 80 percent to the same levels as the losses they experience on loan with LTV ratios up to 80 percent. This indicates that [private MI] is highly effective in reducing losses to the GSEs.” – Urban Institute Analysis

Loss Severity for GSE Loans with and without PMI



MORTGAGE INSURERS’ OBLIGATION AND COMMITMENT TO PAY CLAIMS: New Master Policy & Rescission Relief Principles

NEW MASTER POLICY

The MI Master Policy, which governs claims paying policies and procedures, underwent significant changes in 2014 with substantial input from the Federal Housing Finance Agency (FHFA) and **increased clarity of terms streamlined the payment of claims to ensure, in the event of borrower defaults, that MI results in reliable and predictable payments to lenders.** These new policies articulate in much greater detail the conditions, in some cases tied to quantitative thresholds, that must be met before certain errors and omissions can become grounds for rescission.

The new Master Policy **ensures timely, consistent, and accurate policy and claim administration.** It creates high visibility and responsiveness for performing loss mitigation, including through workouts for homeowners who become delinquent on their payments. Private MI companies work with investors and servicers to help homeowners prevent foreclosure.

In 2019, USMI members developed a common Master Policy, which became effective on March 1, 2020.

RESCISSION RELIEF PRINCIPLES

The Rescission Relief Principles were first published in 2013, and the GSEs issued Revised Rescission Relief Principles in December 2017. The revisions sought to align the principles with updates to the GSE Representations and Warranties (R&W) framework. The introduction of rescission relief has been well-received by the industry, and includes automatic relief after 36 timely payments, addressing the concern of lenders, with early relief available after 12 timely payments with a full file review. It also provides private MI companies with the ability to offer increased rescission relief.

Since these principles were first published more than a decade ago, the private MI industry has remained committed to supporting borrowers who face challenging circumstances.

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- *Automatic relief after 36 timely payments, with early relief available after 12 timely payments with a full file review*
 - *Allow for private MIs to offer day one certainty to lenders of coverage*
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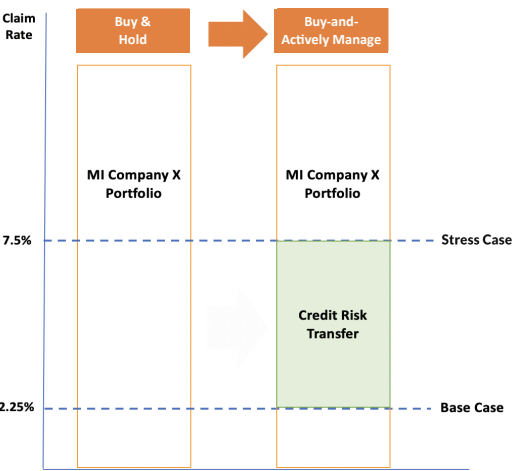
MORTGAGE INSURERS ARE ACTIVE MANAGERS OF MORTGAGE CREDIT RISK: MI Credit Risk Transfer (MI-CRT) Structures

Private MI is one of the most stable and reliable sources of private capital that assumes mortgage credit risk through all market cycles, and in recent years, the industry has implemented innovative tools and structures to help better insulate the housing finance system from the cyclical nature of the mortgage market. In doing so, private MIs have enhanced their ability to be more active long-term managers of risk. The industry now uses a combination of capital markets-based and traditional reinsurance executions to reduce volatility and exposure of mortgage credit risk within the mortgage finance system, including to the GSEs and, therefore, taxpayers.

The private MI industry has demonstrated a commitment to effective capital management through both traditional reinsurance transactions with rated counterparties and capital markets-based Insurance-Linked Note (ILN) issuances, which have enabled private MIs to become one of the strongest and most stable counterparties to the GSEs and investors and to play a greater role to support the U.S. housing finance system.

MI-CRT structures have developed and grown in the housing market since 2015, transforming the MI business model from “Buy-and-Hold” into “Buy-and-Actively Manage.” MI-CRT demonstrates that private MI companies are sophisticated experts in pricing and actively managing mortgage credit risk, which further cements the stability private MI provides in the mortgage finance system.

TRANSFORMATION OF THE PRIVATE MI INDUSTRY



- Given the cyclical and long-tail nature of the private MI business, **the industry has evolved from a “Buy-and-Hold” approach into a more proactive and sophisticated “Buy-and-Actively Manage” operating model** by laying off risk whenever presented with a favorable risk-reward trade-off.
- Deploying MI-CRT allows private MIs to **hedge against adverse losses and mitigate volatility through housing and business cycles**.
- The private MI industry’s comprehensive CRT strategy, which combines Insurance-Linked Notes (ILNs) with traditional third-party reinsurance, **not only positions the industry well in the current economic environment but also ensures it will continue to operate as a going concern through future economic stress cycles**, making private MIs strong and stable counterparties to the GSEs and investors.
- Transferring credit risk is an effective hedge to exposure to cyclical mortgage risk and also **frees up capital without adding financial leverage to the balance sheet**.

Since 2015, private MI companies have transferred **\$80.7 billion of single family mortgage credit risk to the global capital and reinsurance markets**.¹¹ The overall and transaction structure-specific numbers reflect the initial amount of risk transferred and insurance-in-force (IIF) covered. In the reinsurance markets, private MIs have executed 75 deals using Quota Share Reinsurance (QSR) and Excess of Loss (XOL) transactions, **ceding \$57.9 billion of risk to the traditional reinsurance market**.¹² As for using capital markets to manage risk, the industry introduced MI ILN programs beginning in 2015. Since then, **private MIs have issued 58 ILN transactions, transferring nearly \$22.8 billion of risk**.¹³

PRIVATE MI BUSINESS MODEL TRANSFORMATION

	HISTORICAL MODEL: PRE-FINANCIAL CRISIS	EVOLVING MODEL: BUY-AND-ACTIVELY MANAGE RISK
HOW RISK IS PRICED	<div>Published rate cards were more widely utilized with price based on broad LTV ranges leading to:</div> <ul style="list-style-type: none">mispriced credit tailslimitations in swiftly changing price in down cyclesreduced competitive advantage given published pricingweakness in allocating capital based on individual borrower and loan attributeslimited ability to shape portfolio's risk and return profilepublished industry pricing allowed for minimal opportunity to adjust pricing	<div>Deployment of more sophisticated risk-based pricing delivered through automated pricing engines that can analyze hundreds of factors:</div> <ul style="list-style-type: none">enables pricing based on additional risk attributesoperationally, rates can be efficiently changed (providing a strong defense in a down cycle)provides best rate to borrower based on their credit and loan attributesenables shaping of the portfolio based on target credit and return profilessupports “best execution” lender strategies
HOW RISK IS MANAGED	<div>The private MI industry did not utilize reinsurance in a manner consistent with P&C and Life insurers:</div> <ul style="list-style-type: none">portfolios comprised long tail mortgage credit riskthe private MI industry was significantly levered to U.S. housing and economic cyclesportfolios with uncapped liability were exposed to significant franchise and return volatility during down cyclesrelied on equity as primary source of capital with minimal opportunities to diversify capital sources	<div>Deployment of programmatic CRT transactions, such as ILN, XOL, and QSR agreements:</div> <ul style="list-style-type: none">provides a layer of protection against adverse credit risk leading to a more sustainable franchiseminimizes franchise and return volatility during down cyclesprovides 3rd party mortgage credit risk price discovery that can be incorporated back into front end risk-based pricingprovides additional sources of capital making for a stronger and more stable counterparty

Private MIs underwrite and actively manage mortgage credit risk, ensuring quality control and a “second pair of eyes” on risk within the financial system and for end-investors. Through CRT, private MIs are able to access global financial markets to actively manage risk while not diluting their role in underwriting mortgage credit risk or serving as entity-based capital. The private MI industry has demonstrated a commitment to effective capital management through both reinsurance and programmatic ILN issuances, which have enabled private MIs to become the strongest and most stable counterparties to the GSEs and investors and to play a greater role in supporting the U.S. housing finance system.

Housing finance stakeholders have recognized the industry’s innovation, expanded capabilities to expertly manage risk, and the benefits associated with MI-CRT programs. Urban Institute analysis finds that “these transactions give the mortgage insurers information that is valuable for pricing the MI, through both the deal pricing and through discussions with investors,” adding that MI-CRT will “also reduce the volatility of earnings, providing greater resiliency for the mortgage insurers under adverse market conditions.”¹⁴

BENEFITS OF MI-CRT

TO THE MI COMPANIES	TO THE HOUSING FINANCE SYSTEM
<ul style="list-style-type: none">Diversifies capital beyond entity-based equity capital	<ul style="list-style-type: none">Strengthens private MIs as counterparties
<ul style="list-style-type: none">Protects portfolio against adverse losses in housing downturns	<ul style="list-style-type: none">MIs underwrite/actively manage the mortgage credit risk, ensuring quality control and a “second pair of eyes” on risk within the financial system and for end-investors
<ul style="list-style-type: none">Enhances counterparty strength	<ul style="list-style-type: none">Reduces investor risk exposure because private MIs typically hold the first 185-250 basis points (bps) of risk for ILN and XOL transactions, ensuring alignment of incentives to instill quality underwriting
<ul style="list-style-type: none">Provides capital credit for PMIERS, rating agencies, and state regulatory requirements	<ul style="list-style-type: none">Offers significant potential for growth, deepening pool of liquidity for the market and options for investors in mortgage finance credit
<ul style="list-style-type: none">Cost-effective source of funding that allows private MIs to hold excess capital	

EVOLUTION OF THE INDUSTRY:
Trends among the Private MI Companies

Through significant enhancements to its capital structure and a more precise and certain Master Policy, the industry has become stronger and better prepared for future downturns. The industry has demonstrated an ability to tap multiple available sources of capital, including equity, debt, traditional reinsurance, and capital markets-based reinsurance to manage risk. It has also shown its ability to work with lenders of all sizes and types, from the largest money center banks to small community banks, credit unions, and independent mortgage banks. This has created a wide array of trends and practices that further enhance the industry.

TREND	DESCRIPTION
Dynamic Industry Pricing	Allows companies to better price for mortgage credit risk and tailor their own risk profiles through pricing.
Regular QA audits	Private MIs conduct regular QA audits to monitor manufacturing quality and provide timely feedback to lenders and underwriters.
Financial Strength Ratings	Private MIs are highly rated by Moody's, S&P, Fitch, and A.M. Best, and all companies have been upgraded over the past several years.
Risk Management Advocacy	Regular dialogue with the GSEs on credit guideline development, servicing practices, and emerging risk trends.
RMBS Rating Methodologies	All of the major rating agencies (Moody's, S&P, Fitch, KBRA and DBRS Morningstar) have implemented improved treatment of credit for private MI as part of their rating methodologies for residential mortgage-backed security (RMBS) transactions.
Higher credit scores, lower LTVs, and lower debt-to-income (DTI) ratios than FHA and VA borrowers	Conventional loans with private MI have lower LTV ratios and higher FICO credit scores than Federal Housing Administration (FHA) or Department of Veteran Affairs (VA) loans. Post-crisis, conventional loans with private MI have exhibited lower DTI ratios than loans insured by FHA and VA.

CONCLUSION

Private MI is a critical feature of the housing finance system that enables homeownership for millions of Americans—and protects the GSEs, lenders, taxpayers, and mortgage finance system from undue mortgage credit risk. Since the Great Financial Crisis, the private MI industry worked in partnership with FHFA and the GSEs to strengthen its safety and soundness through enhanced capital and operational standards to be more resilient and withstand severe economic stress, and thus is an essential check on mortgage credit quality through the financial system, reducing systemic risk in the housing and financial markets.

Our nation's mortgage finance system must balance access to mortgage credit for consumers while also shielding taxpayers. Fortunately, private MI is uniquely and permanently dedicated to serving both objectives through all economic cycles. Today, the private MI industry continues to be strong, resilient, and reliable, ensuring the industry is poised to enable homeownership for borrowers without large down payments while protecting the GSEs, American taxpayers, and the mortgage finance system at large from mortgage credit risk in the future.

¹ USMI Member Company Data and GSE Aggregate Data.

² GSE Aggregate Data.

³ MI company data and *Inside Mortgage Finance*, Primary Mortgage Insurance Activity.

⁴ GSE Aggregate Data.

⁵ HMDA Data.

⁶ GSE SEC Filings as of December 31, 2024.

⁷ MI Companies' SEC Filings as of December 31, 2024.

⁸ MI Companies' SEC Filings and Press Releases.

⁹ GSE statutory filings and MI Company Filings.

¹⁰ Urban Institute, "[Mortgage Insurance Data At A Glance-2023](#)" (August 2023).

¹¹ MI Company CRT Transaction Data, as of December 31, 2024.

¹² MI Company CRT Transaction Data, as of December 31, 2024.

¹³ MI Company CRT Transaction Data, as of December 31, 2024.

¹⁴ Urban Institute, "[Credit Risk Transfer: A Fork in the Road](#)." (June 7, 2018).