USMI PUBLIC POLICY PRIORITIES

Enabling Access and Protecting Taxpayers

Owning a home is the largest single investment most Americans will make. A strong and vibrant private Mortgage Insurance (MI) industry already plays an important role in facilitating homeownership for millions of Americans, and MI is prepared to do more. But to safeguard the future of homeownership, the housing finance system must be reformed. U.S. Mortgage Insurers (USMI) offers real solutions to housing finance reform that ensure broader access to sustainable homeownership while reducing taxpayer risk. USMI is ready to help build the future of housing finance.

Enabling Access to Homeownership & Affordable Mortgage Credit with MI. Mortgage insurance is the first level of credit protection against the risk of loss on a mortgage in the event a borrower is not able to repay the loan and there is not sufficient equity in the home to cover the amount owed. MI has helped millions become homeowners by enhancing their ability to obtain a mortgage in an affordable way. Private capital, including private MI, should be the preferred approach to facilitating access to affordable mortgage credit while simultaneously protecting taxpayers from mortgage credit risk.

- MI provides loan level protection against first losses on individual low down payment mortgage loans – and in doing so, promotes broad access to sustainable homeownership for credit worthy borrowers while enhancing stability and liquidity in the housing finance system.

Lenders require mortgage borrowers to pay a substantial down payment – typically 20 percent of the home value. This requirement can be a significant barrier for first-time and low to moderate income homebuyers, "trade-up" homebuyers, or those relocating to a higher cost area. MI helps borrowers with a lower down payment gain access to mortgage financing.

- Nearly half of loans originated with MI in the last year were to first-time homebuyers. More than 40% of loans with MI went to borrowers with incomes below $75,000.

USMI supports several policy actions to expand broad access to sustainable homeownership through the use of MI:

- **Setting and Using GSE Fees.** Many of the fees and charges imposed by the government-sponsored enterprises Fannie Mae and Freddie Mac (the GSEs), such as loan-level price adjustments (LLPAs), needlessly increase costs to credit worthy borrowers. GSE fees should be based on transparent actuarial analysis of the mortgage credit risks being incurred and should fully reflect the risk-reducing benefits of MI. LLPAs should be reduced or eliminated to reflect the credit risk that is covered by MI on low down payment loans. When the risk-reducing benefits of MI are not factored into GSE fees, consumers are charged twice for the same risk reduction. This double charging disproportionately disadvantages low- and moderate- income and first time homebuyers.

Further, USMI opposes the use of GSE fees to finance unrelated expenses, which imposes undue and unnecessary costs on homeowners.

- **Extending and Preserving Tax Deductibility of MI.** On December 18, 2015, Congress passed an extension of vital homeowner tax relief that included the tax-deductible treatment of mortgage insurance premiums paid to private MIs, FHA, Department of Veterans Affairs, and the Rural Housing Service for low and moderate income borrowers. The ability of borrowers to deduct MI premiums from federal income taxes should be made permanent because MI premiums are the economic equivalent of mortgage interest payments, and so should remain deductible and at parity with mortgage interest payments. The mortgage insurance premiums tax deduction expired on December 31, 2016 and USMI supports extending this targeted deduction or making it permanent if and when Congress reforms the U.S. tax code.

Reducing Taxpayer Risk with MI. More needs to be done to put our housing finance system on a more sustainable footing, with the private sector – not taxpayers – bearing a greater share of the risks of a housing downturn.

MI reduces taxpayer exposure by reliably transferring a substantial portion of mortgage credit risk to MIs backed by private capital. MIs covered more than $50 billion in claims to the GSEs since conservatorship, resulting in substantial savings to taxpayers. Throughout the financial crisis, USMI member companies never stopped insuring new mortgages, never stopped paying claims, and never received any bailout money from the federal government. In fact, MIs have paid all valid claims, with nearly 97% paid and the remainder due over time.

MIs have a long history of consistently offering mortgage insurance even during significant market downturns. This makes MI very different from capital markets structures, which disappeared during the crisis and have not returned in any meaningful volume since.

The MI industry's safety and soundness has been enhanced in recent years to make MIs even more resilient and reliable. Updated master policies provide enhanced contractual certainty on how and when MIs pay claims. Moreover, mortgage insurers have materially increased their claims paying ability under higher capital standards mandated by the Private Mortgage Insurer Eligibility Requirements (PMIERs), issued by the GSEs.

USMI supports several policy actions to reduce taxpayer risk further through the use of MI:

- **Establishing a Coordinated Housing Policy that Promotes Private Capital Ahead of Taxpayer Exposure**. USMI supports a coordinated federal housing policy that promotes private capital ahead of taxpayer exposure. Under a coordinated housing policy, USMI supports uniform guardrails and standards across lending and insurance channels to ensure that mortgage credit is provided based on a borrower's specific characteristics and credit profile rather than merely which entity (i.e. FHA, VA, GSEs, etc.) purchases or insures the mortgage.

  One area of particular concern is the differences between the CFPB's QM rule for conventional mortgages and HUD's QM rule for FHA-insured mortgages. These differences include different debt-to-income caps, different formula to calculate points and fees, and different standards for higher cost mortgages.

  These differences have the effect of incenting greater reliance on government programs, increasing risk to taxpayers.

- **Striking the Right Balance for Taxpayers in Establishing Complementary Roles for FHA and MI.** The MI industry and FHA should serve in complementary roles to promote broad and sustainable homeownership. But to do that, FHA needs to become more financially resilient, in line with the rest of the financial system, and remain focused on its core mission of serving underserved communities. Private mortgage insurers that put their own capital at risk to mitigate mortgage credit risk should be positioned to assume that risk whenever possible, consistent with the principles guiding GSE reform. Taxpayers continue to face exposure to approximately $1.3 trillion in FHA-insured mortgage credit risk, without adequate capital held against that risk. USMI continues to call for reforms to the FHA capital standard, including increasing the Fund's minimum capital ratio to reduce the chances of another taxpayer bailout in future market downturns, and stress testing those levels to ensure the Fund's financial position is more consistent with the risks assumed. In addition, FHA should be dissuaded from taking on risks in market sectors where private MI is readily available.

- **Strengthening the Role of MI in Comprehensive Reform Legislation.** Today, MI plays a significant role in reducing taxpayer risk on loans purchased or securitized by the GSEs. While the GSE charters set minimum requirements for MI coverage, for nearly 20 years the market practice has been to use greater protection than the minimum required. This additional level of MI, also known as "standard coverage," has served the housing finance system well and represents a vital source of private capital supporting GSE loans, providing substantial taxpayer protection at an affordable cost to borrowers. The benefits of standard MI coverage should be preserved when considering policy alternatives to ensure that taxpayers are at a more remote risk of loss in any reformed system. Deeper and broader use of MI could further limit taxpayer exposure. MI provides policy makers a tool already used by lenders of all sizes with which to build a new housing finance system where private capital stands in front of taxpayer risk.

- **Protecting Taxpayers by Expanding Use of Deeper MI in GSE Risk-Sharing.** Pending meaningful Congressional action on housing finance reform, significant incremental progress toward reducing taxpayer risk can be accomplished through greater use of MI. On GSE loans with down payments below 20%, MI coverage currently goes up to 35% of the loan value. Increasing that coverage to 50% ("Deeper Cover") would put more private capital at risk and would decrease taxpayer risk. MI can also provide cover on loans at or below 80% LTV, which otherwise have no risk transfer and thus pose a risk to taxpayers. Doing so further reduces the risk concentrated at the GSEs.

  We remain committed to working with the Federal Housing Finance Agency (FHFA) and the GSEs on concrete steps to take greater advantage of the benefits of front-end risk sharing with Deeper Cover MI. According to third party analysis, Deeper Cover MI not only reduces taxpayer risk but should also lower borrower costs. And it does so in a way that is easily accessible for lenders of all sizes. Deeper Cover MI provides a sensible transition forward that does not disrupt the smooth functioning of the large, complex U.S. housing finance system.

Building the Future

U.S. Mortgage Insurers is dedicated to a housing finance system backed by private capital that enables access to housing finance for borrowers while protecting taxpayers. Mortgage insurance offers an effective way to make mortgage credit available to more people. USMI is ready to help build the future of homeownership.