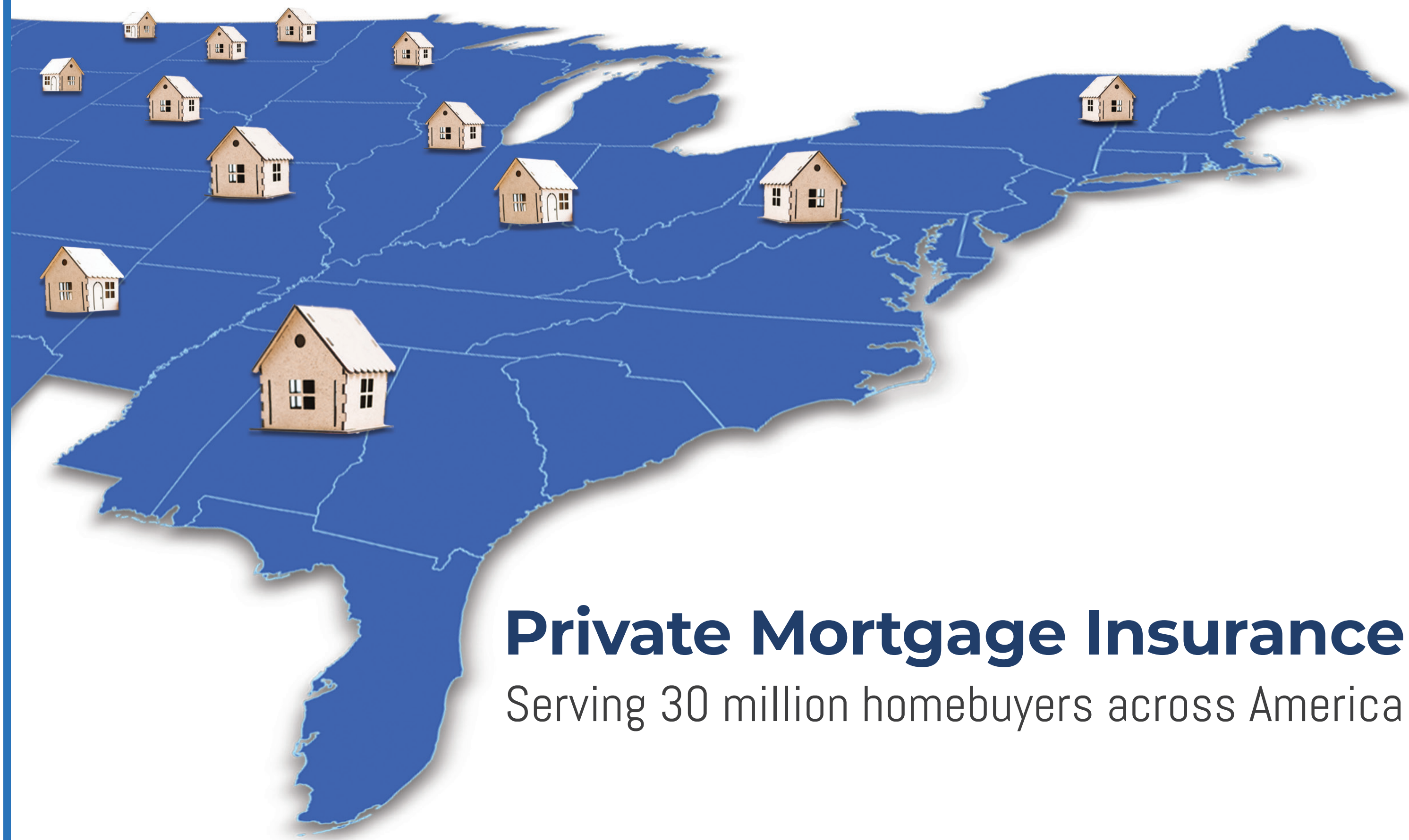

Private Mortgage Insurance

Serving 30 million homebuyers across America

Making homeownership possible for over 60 years

USMI®

U.S. Mortgage Insurers

www.usmi.org

A State-by-State Report by U.S. Mortgage Insurers | June 2018

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 offers an effective way to make mortgage credit available to more people. USMI is ready to help build the future of homeownership. Learn more at www.usmi.org.

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INTRODUCTION

Private mortgage insurance (MI) has been an important component of the U.S. housing and mortgage finance system for more than 60 years. First, as a means to help millions of creditworthy borrowers qualify for affordable mortgage financing with low down payments; second, as protection for the government-sponsored enterprises (GSEs), lenders, and American taxpayers from mortgage credit risk.

For many Americans, the biggest hurdle in buying a home is the 20 percent down payment they think is required for mortgage approval. However, MI helps bridge the down payment gap to help borrowers obtain the financing needed to purchase a home. In doing so, private MI allows homeowners to build the kind of long-term wealth that comes with having equity in a home. MI facilitates low down payment lending because it provides a safeguard for lenders and the GSEs against the higher risk associated with mortgages originated with a down payment of less than 20 percent of the purchase price. Therefore, MI is a win-win situation for borrowers, lenders, and American taxpayers.

Since 1957, MI has helped nearly 30 million families become homeowners. In 2017 alone, MI helped more than 1 million borrowers purchase or refinance a mortgage. Of the total number of borrowers, more than 40 percent had annual incomes below $75,000[1] and 56 percent of purchase loans went to first-time homebuyers. MI is truly helping those low- to moderate-income Americans who cannot afford to put down the full 20 percent.

Additionally, MI has proven to be a reliable method in shielding the GSEs, Fannie Mae and Freddie Mac, as well as American taxpayers, from losses on mortgage credit risk. MI companies paid more than $50 billion[2] in claims since the financial crisis and housing market downturn – claims the government and taxpayers did not have to provide.

This report will look at how MI helps bridge the down payment gap, and analyzes at a local level who specifically benefits from private MI.

DOWN PAYMENT: THE #1 IMPEDIMENT

For many Americans, the biggest hurdle in buying a home is the 20 percent down payment they think is required for mortgage approval. In Q1 2018, the National Association of REALTORS® asked non-homeowners about impediments preventing them from saving for a down payment.

According to the survey,[3] 47 percent cannot save because they have limited income, 30 percent because of their student loan debt, 28 percent because of rising rental costs, and 19 percent because of health and medical expenses.

Considering home prices have appreciated steadily since the financial crisis across most of the country, it is understandable how 20 percent of the purchase price can be out of reach for many families.

For example, it could take 20 years for a household earning the national median income of $59,039[4] to save 20 percent, plus closing costs, for a $235,500[5] home (national median sales price). That's nearly $50,000 in cash! The below table further illustrates this, breaking down the number of years it would take people from various professions and races to save 20 percent down.

Years	Profession	Income
23 YEARS	Firefighter	$49,080
20 YEARS	Middle School Teacher	$57,720
16 YEARS	Registered Nurse	$70,000
13 YEARS	Veterinarian	$90,420

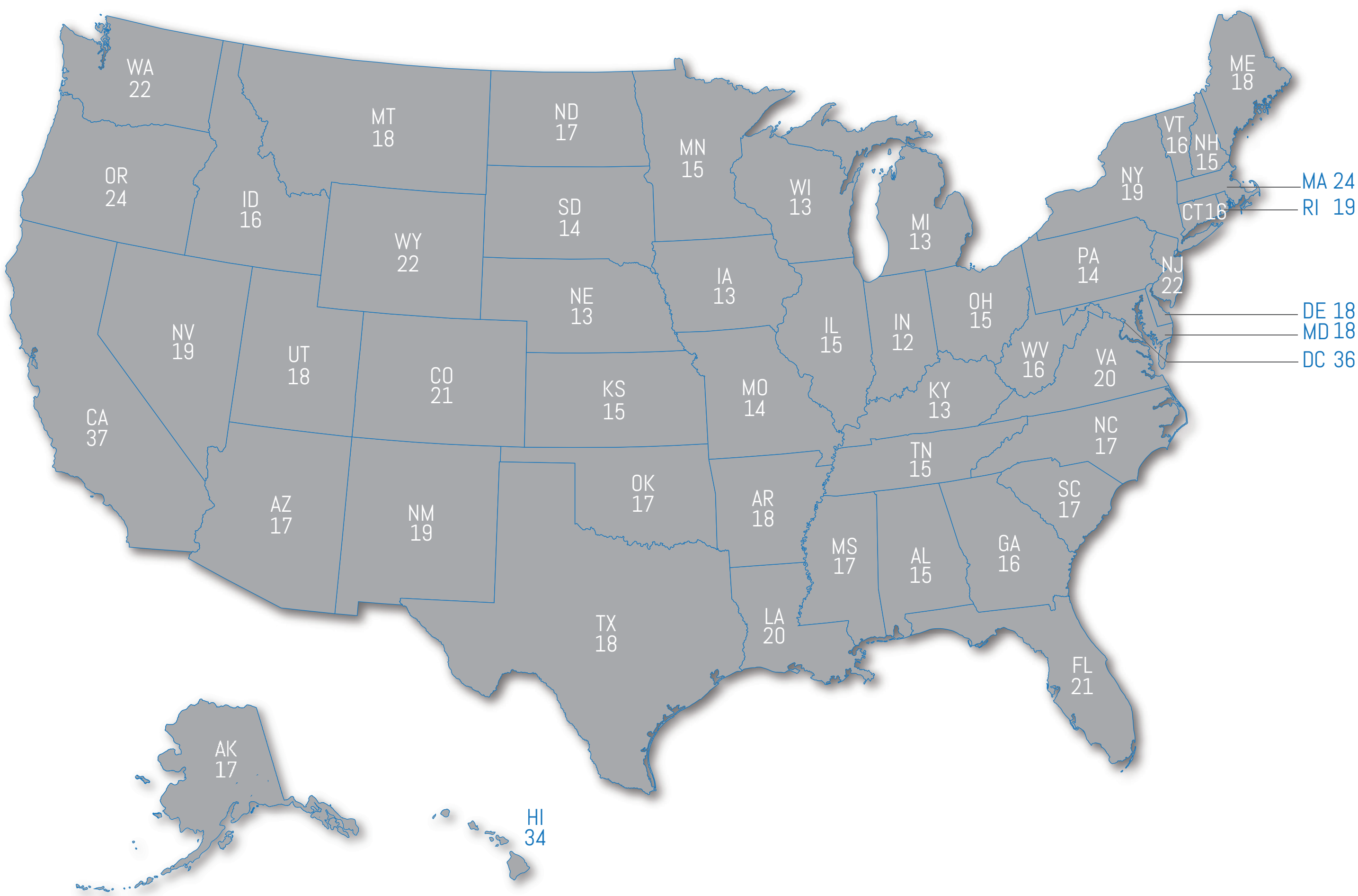
Years	Race	Income
29 YEARS	African-American	($40,065)
24 YEARS	Hispanic	($47,675)
19 YEARS	White	($61,858)

MYTH BUSTER:
You do NOT need a 20% down payment

All dollar amounts in the above table represent median incomes and median sales prices for a single-family home in the U.S.[6,7]

How many years would it take to save the 20 percent down payment, plus closing costs?

The number of years to save the full 20 percent also varies across the states.[8] California has the longest wait time at 37 years, followed by the District of Columbia at 36 years, and Hawaii at 34 years. These calculations are based off 2017 average home price in the states, according to the National Association of REALTORS®. Home price appreciation is dramatically outpacing wage growth across the country. Thus, these wait times will likely increase over time.



MI HELPS BRIDGE THE GAP

By helping borrowers qualify for a mortgage with a down payment as low as three percent, MI has given nearly 30 million families nationally the opportunity to purchase a home sooner over the last 60 years.[9] In 2017 alone, MI helped more than 1 million borrowers purchase or refinance a mortgage. Of the total number of borrowers, more than 40 percent had annual incomes below $75,000[1] and 56 percent of purchase loans went to first-time homebuyers. These homebuyers had an average FICO® credit score of 741[10] and on average took out a mortgage loan for $237,961.

At the state level, Texas ranks first in terms of the number of homeowners (79,030) who were helped by private MI in 2017. California (72,938), Florida (69,827), Illinois (47,866), and Michigan (41,810) round out the top five states where homeowners were able to purchase or refinance a home with MI in 2017. The table on page 7 shows the number of homeowners helped with MI across all 50 states plus DC and includes details on the average credit score, home loan size, and percentage of first-time buyers.

Number of homeowners helped with MI across all 50 states and DC

(Table is ordered from highest to lowest in terms of the number of homeowners helped with MI. It includes details on the average credit score, home loan size, and percentage of first-time buyers.)

RANK	STATE	HOMEOWNERS HELPED BY MI IN 2017	% FIRST-TIME HOMEOWNERS WITH MI	AVERAGE FICO SCORE	AVERAGE LOAN AMOUNT WITH MI
1	TX	79,030	55%	737	$233,650
2	CA	72,938	66%	741	$360,445
3	FL	69,827	58%	735	$224,837
4	IL	47,866	63%	739	$203,568
5	MI	41,810	57%	737	$178,022
6	OH	39,392	55%	740	$169,805
7	AZ	37,837	55%	736	$236,257
8	NC	36,316	49%	744	$220,782
9	GA	35,422	52%	742	$225,604
10	PA	34,004	58%	746	$210,500
11	WA	31,215	61%	741	$301,548
12	MN	30,439	57%	745	$220,593
13	VA	26,712	52%	752	$297,611
14	CO	26,096	58%	747	$299,475
15	IN	25,712	50%	739	$169,987
16	NY	25,470	66%	745	$249,376
17	WI	24,440	57%	741	$184,524
18	NJ	22,618	66%	743	$287,727
19	MO	22,240	46%	744	$187,452
20	MD	21,649	59%	748	$296,235
21	TN	20,060	44%	744	$225,014
22	MA	19,175	68%	741	$305,457
23	SC	18,416	46%	743	$208,991
24	UT	18,393	49%	748	$274,982
25	OR	15,134	58%	747	$281,813
26	NV	14,648	58%	733	$255,387
27	AL	13,743	41%	744	$203,067
28	IA	11,870	54%	739	$169,687
29	KY	10,763	46%	744	$185,866
30	LA	10,630	49%	738	$216,035
31	CT	10,488	65%	743	$242,203
32	OK	9,859	41%	742	$190,684
33	KS	9,689	48%	743	$184,724
34	ID	9,462	47%	740	$214,771
35	NE	7,991	56%	742	$179,544
36	AR	7,585	40%	744	$186,643
37	NM	5,561	51%	742	$204,335
38	NH	5,481	54%	742	$248,438
39	MS	4,886	41%	740	$194,821
40	MT	3,645	48%	746	$232,028
41	DE	3,562	49%	747	$247,712
42	SD	3,044	49%	746	$197,542
43	ME	2,991	44%	743	$217,970
44	WV	2,925	49%	739	$174,297
45	RI	2,903	59%	747	$242,051
46	DC	2,273	75%	758	$401,411
47	HI	2,254	65%	745	$418,334
48	ND	2,128	50%	747	$222,126
49	WY	1,853	40%	743	$234,421
50	VT	1,830	54%	744	$215,111
51	AK	1,780	40%	747	$285,272
TOTAL:		**1,006,005**	**53%***	**743****	**$235,661**

*The average percentage for first-time homebuyers is based on purchased and refinanced loans.

**The average FICO score is not weighted based on the different number of borrowers per state.

HOMEOWNER DEMOGRAPHICS

In 2016, lenders originated nearly 8.4 million mortgages loans,[11] including almost 3.5 million purchase loans for single-family homes, with more than 20 percent of purchase loans going to minority households.[12] Hispanic borrowers received 8.8 percent of these loans, followed by 6 percent for African American borrowers, and 5.5 percent for Asian borrowers. Importantly, minority households have increased their share of purchase loans for three consecutive years, allowing more families to attain homeownership and begin building home equity and personal wealth.

In looking at the breakdown of loans state-by-state, Hawaii ranks first for the highest percentage of minorities purchasing or refinancing home loans. Hispanics, African Americans, and Asians represented 43.73 percent of total loans purchased or refinanced in the state. California ranks second (35.95 percent), New Mexico third (35.67 percent), Texas fourth (32.65 percent), and Maryland fifth (31.39 percent).

Home loans purchased or refinanced by minorities

(Table is ordered from highest to lowest in terms of the percentage of loans purchased or refinanced by minorities.)

STATE	TOTAL LOANS	LOANS PURCHASED/REFINANCED BY MINORITIES	% LOANS PURCHASED/REFINANCED BY MINORITIES
HI	32,822	14,352	43.73%
CA	1,172,541	421,490	35.95%
NM	41,334	14,743	35.67%
TX	613,325	200,279	32.65%
MD	171,556	53,858	31.39%
NV	97,926	27,699	28.29%
GA	264,802	71,163	26.87%
FL	506,394	132,849	26.23%
NJ	194,913	47,902	24.58%
VA	252,237	58,412	23.16%
MS	51,684	11,002	21.29%
AZ	236,688	49,603	20.96%
DE	27,296	5,409	19.82%
IL	317,597	62,914	19.81%
NY	246,292	46,436	18.85%
NC	262,765	48,003	18.27%
LA	94,261	16,905	17.93%
AL	109,870	17,949	16.34%
WA	263,712	40,522	15.37%
CT	75,239	11,541	15.34%
SC	131,134	19,418	14.81%
MA	201,756	29,090	14.42%
CO	263,402	37,472	14.23%
AR	65,762	7,969	12.12%
TN	174,965	20,181	11.53%
PA	273,334	30,048	10.99%
RI	27,005	2,930	10.85%
OK	84,730	9,089	10.73%
AK	17,503	1,860	10.63%
KS	69,335	6,741	9.72%
UT	126,325	12,132	9.60%
OR	136,083	12,984	9.54%
IN	172,307	15,740	9.13%
MI	262,757	23,321	8.88%
OH	262,449	22,192	8.46%
MN	176,922	14,585	8.24%
NE	52,019	4,285	8.24%
MO	165,943	12,607	7.60%
KY	100,105	7,003	7.00%
ID	59,151	3,915	6.62%
WY	15,484	948	6.12%
WI	168,678	9,666	5.73%
IA	90,932	5,103	5.61%
NH	38,262	1,718	4.49%
WV	31,084	1,139	3.66%
SD	20,937	689	3.29%
VT	15,176	431	2.84%
ND	19,580	520	2.66%
MT	26,863	604	2.25%
ME	33,761	738	2.19%
TOTAL	**8,316,998**	**1,668,149**	**20.06%**

MI PROTECTS TAXPAYERS

Every dollar that an MI company covers when a borrower defaults on their mortgage is a dollar that the GSEs, and therefore taxpayers, don't have to pay. With the GSEs in conservatorship and the government effectively guaranteeing the GSEs, taxpayers face direct exposure to mortgage credit losses experienced by the GSEs. Traditionally, for loans with down payments under 20 percent of the home value, MI – not taxpayers – covers the first losses if there is a default, up to certain coverage limits.

> $50 Billion Amount MI industry covered in claims for losses[13]

$920 Billion Amount in GSE Mortgages currently outstanding with MI protection[14]

> $14 Billion Amount in new capital invested by the private MI industry to back housing finance since 2007[15]

38 % Insured market that MI protected in 2017[16]

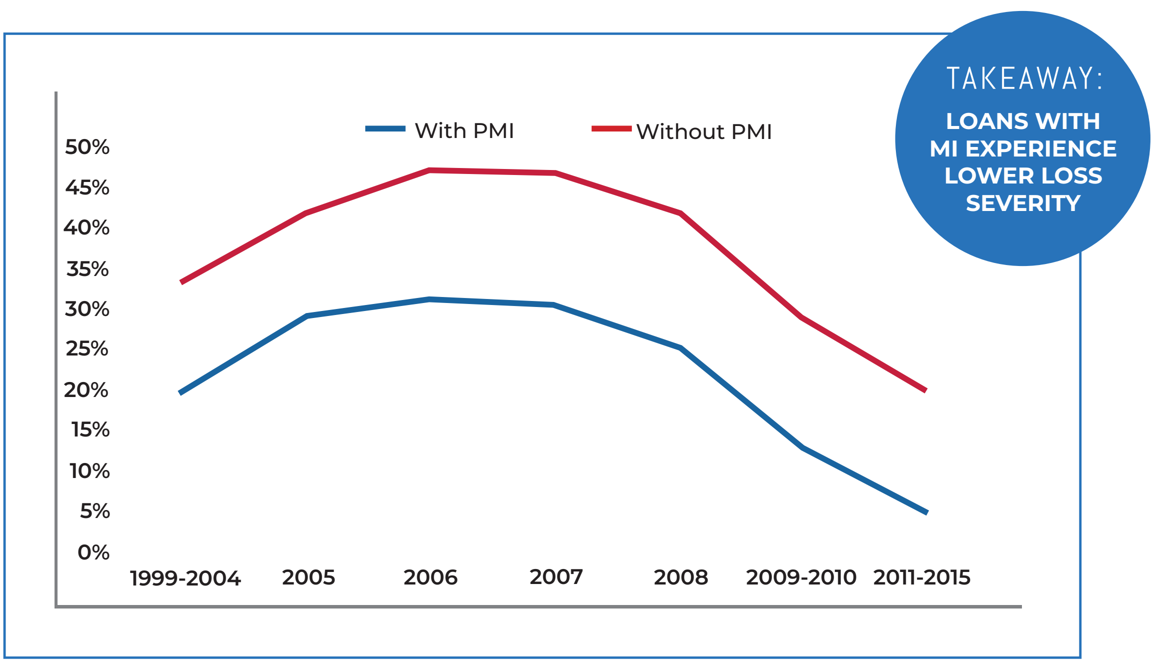
In 2017, the Urban Institute examined the industry's 60-year history of providing this important risk protection against low down payment loans, and the positive role MI has served for homebuyers and the mortgage finance system overall. Urban notes in its study, "[p]rivate mortgage insurers have played a crucial role over the past six decades enabling first-time homebuyers to gain access to high-[loan-to-value] conventional financing while reducing losses for the GSEs."[17]

The report confirms that the presence of private mortgage insurance makes it easier for creditworthy borrowers with limited down payments to access conventional mortgage credit. This is the primary function of MI – to help borrowers qualify for home financing.

The report also focused on the role MI plays to reduce taxpayers' exposure to mortgage credit risk. MI insures the first-loss credit risk to the GSEs, Fannie Mae and Freddie Mac, helping to reduce GSE losses, and therefore taxpayers' losses, on defaulted mortgages.

And historical experience and data show MI works. The Urban Institute found that GSE loans with MI consistently have lower loss severities than those without MI. In fact, for nearly 20 years, conventional loans with private MI have exhibited lower loss severity each origination year. The Urban Institute analysis shows that "for 30-year fixed rate, full documentation, fully amortizing mortgages, the loss severity of loans with PMI is 40 percent lower than [loans] without."

Loss Severity for GSE Loans with and without PMI, by Origination Year Groupings

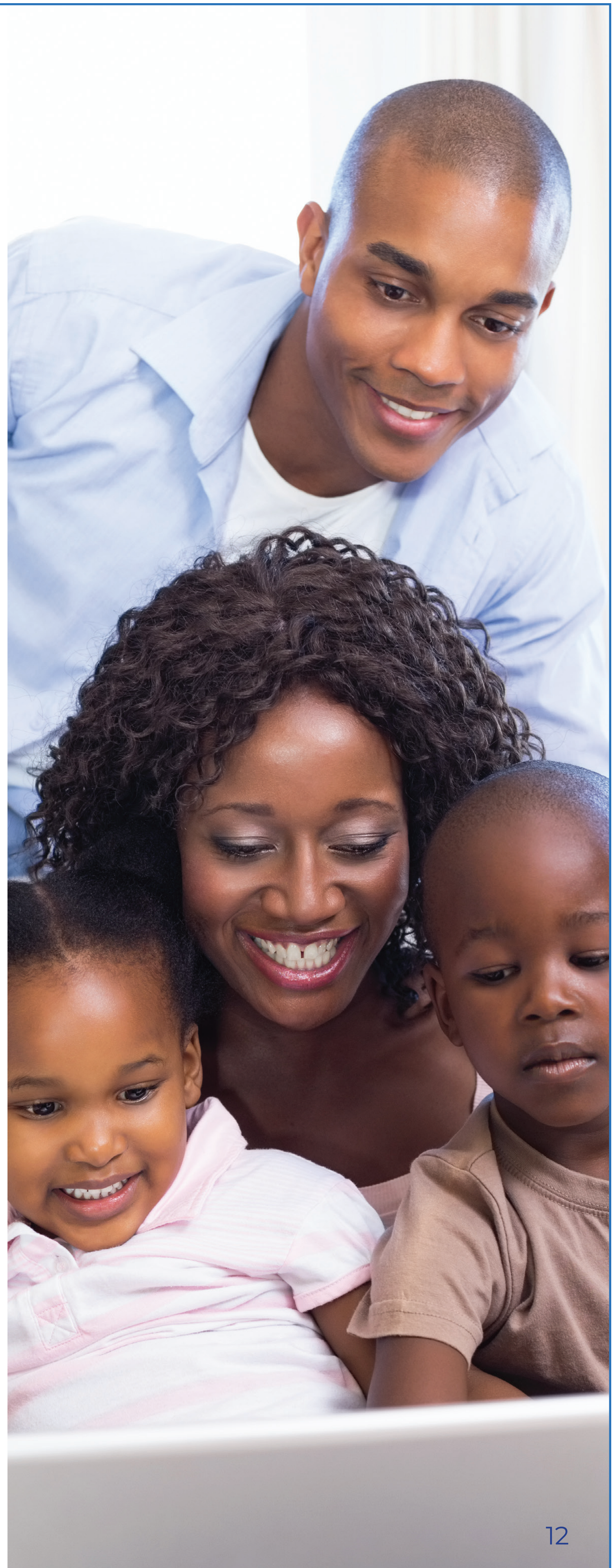


GSE = government-sponsored enterprise; PMI = private mortgage insurance. The GSE credit data are limited to 30-year fixed-rate, full documentation, fully amortizing mortgage loans. Adjustable-rate mortgages and Relief Refinance Mortgages are not included. Fannie Mae data include loans originated from the first quarter of 1999 (Q1 1999) to Q4 2015, with performance information on these loans through Q3 2016. Freddie Mac data include loans originated from Q1 1999 to Q3 2015, with performance information on these loans through Q1 2016.

This data, coupled with the more than $50 billion in claims the MI industry paid since the GSEs entered conservatorship – which represents 100 percent of valid claims, over 97 percent of which have been paid in cash and the remainder due over time – underscores how MI provides significant first-loss protection for the government and taxpayers. By design, MI provides protection before the risk even reaches the GSEs' balance sheets. As the government explores ways to further reduce mortgage credit risk while also ensuring Americans continue to have access to affordable home financing, data shows that private MI has been an important solution across housing market cycles and – unlike most other forms of private capital in the housing finance system – has been available during economic downturns.

The MI industry, like nearly all other financial services industries, was tested like never before through the financial crisis. Coming out of the crisis, the MI industry is even stronger with more robust underwriting standards, stronger capital positions, and improved risk management. Additionally, private mortgage insurers have materially increased their claims-paying ability in both good and bad economic times due to new higher capital (by nearly double since pre-financial crisis) and operational standards under the Private Mortgage Insurer Eligibility Requirements (PMIERs).[18, 19]

Urban Institute notes that the industry "should be more resilient going forward" because of the important changes applied to the industry today – including the enhanced capital, operational, and risk standards – and highlights the broad agreement among parties studying GSE reform for the need to reduce the government's footprint and increase the role of private capital. These developments have helped strengthen the industry and new reforms better position the MI industry to further shield the GSEs and taxpayers from mortgage credit risk while also expanding access to homeownership for the next 60 years and beyond.



Conclusion

Private MI benefits home buyers because it helps them qualify for mortgage financing sooner, and the cost of MI is temporary. Unlike the mortgage insurance premiums paid on the vast majority of loans insured by the Federal Housing Administration (FHA) and other government-backed MI programs, which typically cannot be cancelled, private MI paid for by the borrower can be cancelled, leading to lower monthly mortgage payments and a potential savings over the life of their loan. Private MI can be cancelled in two ways:

1. A borrower may request cancellation of MI when he/she has established 20 percent equity in the home. In other words, the borrower has paid down the mortgage balance to 80 percent of the home's original or newly appraised price.
2. When the principal balance of the mortgage is scheduled to reach 78 percent of the home's original value and the borrower is current on payments, the servicer terminates MI.

MI also benefits lenders because it provides an affordable, transparent, and easily-accessible way to reduce credit risk and approve borrowers for low down payment mortgages.

Finally, MI benefits the government and taxpayers because it stands in front of the GSEs on credit risk and losses. When mortgage insurers pay claims on mortgages backed by Fannie Mae and Freddie Mac, each dollar is a dollar that the government or taxpayers didn't have to pay.

For more than six decades, private MI has played a critical role in helping first time buyers and low- to moderate-income earners achieve affordable home financing while also protecting lenders, the government, taxpayers, and the industry is well-positioned to provide this important function in the housing system of tomorrow.

Endnotes

[1] USMI Member Company Data and GSE Aggregate Data

[2] GSE Statutory Filings

[3] National Association of REALTORS®, "Housing Opportunities and Market Experience (HOME) Survey" (March 2018)

[4] U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements (Table H-8)

[5] National Association of REALTORS®

[6] U.S. Census Bureau, Historical Income Tables (Table H-6)

[7] U.S. Department of Labor, Bureau of Labor Statistics, Occupational Employment & Wages (May 2017)

[8] Calculated from data compiled from Fannie Mae, Freddie Mac, and the Urban Institute

[9] USMI Member Company Data

[10] FICO®, Average score is based on a nationwide random sample of 10M+ consumers with 1+ mortgages as of October 2017

[11] Data reported under the Home Mortgage Disclosure Act of 1975 (HMDA)

[12] Data reported under the Home Mortgage Disclosure Act of 1975 (HMDA)

[13] GSE Statutory Filings

[14] Fannie Mae & Freddie Mac 10-Q Filings

[15] USMI Member Company Data

[16] Inside Mortgage Finance, Primary Mortgage Insurance Activity

[17] Goodman, Laurie; Kaul, Karan: "Sixty Years of Private Mortgage Insurance in the United States," Urban Institute (Aug. 22, 2017)

[18] Fannie Mae, Private Mortgage Insurer Eligibility Requirements (Dec. 21, 2015)

[19] Freddie Mac, Private Mortgage Insurer Eligibility Requirements (Dec. 21, 2015)

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