USMI
U.S. MORTGAGE INSURERS

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PRIVATE MORTGAGE INSURANCE

65 Years of Leveling the Homebuying Playing Field

A State-By-State Report by U.S. Mortgage Insurers

ABOUT USMI

U.S. Mortgage Insurers (USMI) is dedicated to a housing finance system that is backed by private capital and enables access to affordable, low down payment mortgage financing for borrowers while protecting taxpayers and the federal government.

Private mortgage insurance offers an effective and time-tested way to make mortgage credit available to low down payment borrowers. 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 65 years. First, as a means to help millions of home-ready borrowers access affordable mortgage financing with low down payments; and second, as protection for the government-sponsored enterprises (GSEs), lenders, and American taxpayers from mortgage credit risk. Private MI remains the leading way Americans without large down payments are able to become homeowners sooner than they otherwise would be able.

For many Americans, the biggest hurdle in buying a home is saving for a down payment. That barrier has become even more acute in recent years as nationwide home price appreciation (HPA) has skyrocketed due to severely limited affordable housing supply and record low interest rates through much of 2021. According to the Federal Housing Finance Agency's (FHFA) House Price Index (HPI), HPA rose 18.2% from January 2021 to January 2022.[1] It was a dynamic, fast developing market and the private MI industry had a central role in helping low down payment borrowers navigate through these challenges and gain access to housing.

Private MI helps bridge the down payment gap to help borrowers obtain the financing needed to purchase a home. In doing so, private MI helps open the door to affordable and sustainable homeownership in communities across the country, and it allows homeowners to build the kind of long-term stability and equity that comes with homeownership. The private MI industry facilitates low down payment lending by providing a safeguard for lenders and the GSEs against the higher risk associated with mortgages originated with down payments of less than 20% of the purchase price. Therefore, private MI is a valuable benefit for borrowers, lenders, and American taxpayers.

Since 1957, private MI has helped more than 37 million families become homeowners.[2] In 2021, the private MI industry helped nearly 2 million borrowers secure mortgage financing.[3] Of the total number of borrowers using private MI, more than 40% had annual incomes below $75,000[4] and nearly 60% of purchase loans went to first-time homebuyers.[5] Further, the industry supported approximately $585 billion in mortgage originations for new home purchases and refinance loans.[6] Private MI truly helps first-time, minority, and low- to moderate-income (LMI) buyers who cannot afford to put down 20%.

Additionally, private MI has proven to be a reliable method for shielding the GSEs, Fannie Mae and Freddie Mac, as well as American taxpayers, from losses on mortgage credit risk. At the end of 2021, the industry insured $1.4 trillion of mortgages, including $1.2 trillion of mortgages backed by the GSEs.[7] Private MI companies have also paid nearly $60 billion in claims[8] since the 2008 financial crisis and housing market downturn claims the government and taxpayers did not have to pay.

This report looks at how private MI helps bridge the down payment gap and analyzes at a state level who specifically benefits from private MI.

*The information in this report is retrospective, relating to the housing market and private MI activity in 2021 only. Therefore, it should not be used to make projections for 2022 as it does not account for current HPA rates, mortgage rates, inflation, and other aspects presently impacting the housing market.

65 YEARS OF LEVELING THE HOMEBUYING PLAYING FIELD

In April, USMI announced[9] that the private MI industry **helped nearly 2 million low down payment borrowers** secure mortgage financing in 2021, according to data from the GSEs. **The industry also supported approximately $585 billion in mortgage originations.**[10] According to public filings, more than 80% of this volume was for new purchases, and almost 20% was for refinanced loans. This resulted in **approximately $1.4 trillion in outstanding mortgages with active private MI coverage at year's end**,[11] underscoring the industry's critical role of serving as the first layer of protection against credit risk in the conventional mortgage market backed by the GSEs.

Private MI is particularly important for first-time, minority, and LMI homebuyers who face several barriers to securing a home. As mentioned, chief among the barriers to homeownership is record high HPA driven largely by record low housing supply. Borrowers are acutely aware of these issues. Nearly 70% of respondents to USMI's *2021 National Homeownership Market Survey* said the lack of affordable housing is one of the most significant homebuying challenges.[12] However, respondents view MI as a needed and positive option as it levels the playing field and provides access to home financing for those who might not be able to purchase a home due to limited funds for a large down payment.

As homeownership costs rise, a working paper from Fannie Mae reveals what drives those costs. The paper, "What are the biggest costs of homeownership? (Hint: It's not what you might think),"[13] highlights that **the largest contributors are consistently ongoing non-mortgage costs, which collectively are roughly half of total costs over the homeownership period.** These costs include utilities, property taxes, and home improvement expenses. Transaction costs at purchase and sale comprise roughly another 20% of total costs. The paper also notes "[t]he fees charged to cover borrower credit risk that are part of the cost of the mortgage, GSE g-fees (roughly four percent) and PMI [private MI] (roughly one to three percent) are a relatively small part of the cost of homeownership."

Skyrocketing home prices combined with record low housing supply have made homeownership unreachable for many. It is critical that affordable, sustainable low down payment mortgages are available to meet borrowers' needs. Private MI helps borrowers gain access to affordable mortgage finance credit and succeed as sustainable homeowners.

"The largest contributors to housing costs are consistently non-mortgage ongoing costs. [...] PMI [private MI] (roughly 1-3%) are a relatively small part of the cost of homeownership." - Fannie Mae March 2022 Working Paper

USMI worked closely with federal policymakers, industry groups, and consumer organizations to support and advocate for low down payment homebuyers and homeowners throughout the year. The organization sent letters[14] and released statements[15] in support of bipartisan and bicameral legislative initiatives to make permanent the ability of homeowners to deduct MI premiums from federal income; submitted a comment letter[16] on the FHFA's Request for Input (RFI) on the GSEs' Equitable Housing Finance Plans; and joined the Black Homeownership Collaborative[17] in calling on the Biden Administration to focus on the critical need for housing production to address the significant deficit that continues to drive up home prices across the country; among many other actions it took in support of first-time, minority, and LMI homebuyers.

The private MI industry complies with a set of operational and capital standards known as the Private Mortgage Insurance Eligibility Requirements (PMIERs), which were developed and are periodically updated by the GSEs and FHFA. At the end of 2021, the private MI industry **held a collective $25.3 billion[18] qualifying PMIERs funding, which represented a 170% sufficiency ratio holding 70%[19] more capital than the required regulatory threshold**. This furthered the private MI industry's ability to support lenders and borrowers over the past year while operating in a unique and unpredictable market.

The private MI industry is better positioned today than ever to support borrowers in need and provide private capital solutions that insulate lenders, the GSEs, and ultimately taxpayers from risk and loss. Over the last 10 years, the terms of private MI coverage and the regulatory framework governing the industry's actions, funding requirements, and capital position as well as private mortgage insurers underwriting standards and the way they approach evaluating risk, pricing policies, and managing the business tail exposure have all fundamentally changed. As a result, the private MI industry has remained a source of strength and support to the housing finance system.

The private MI industry holds 70% more capital than the required regulatory threshold at the end of 2021.
– MI Companies' 2021 Annual Reports

In its 65-year history, the private MI industry has **enabled more than 37 million[20] people to access affordable, low down payment mortgages**. In 2021, nearly 60% of purchase loans backed by private MI went to first-time homebuyers,[21] over 40% went to borrowers with incomes below $75,000,[22] and the average loan amount with private MI was $310,275.[23]

Private MI has enabled more than 37 million families to access affordable low down payment mortgages.
– USMI Member Company Data and GSE Aggregate Data

DOWN PAYMENT: THE #1 IMPEDIMENT

For many Americans, the biggest hurdle in buying a home is the 20% down payment many believe is required for mortgage approval. USMI's survey found that 16% of respondents consider the ability to afford a down payment one of the two biggest homebuying challenges and 38% responded that lack of intergenerational wealth for a down payment is a significant barrier for increasing the number of minorities that own their own homes.[24]

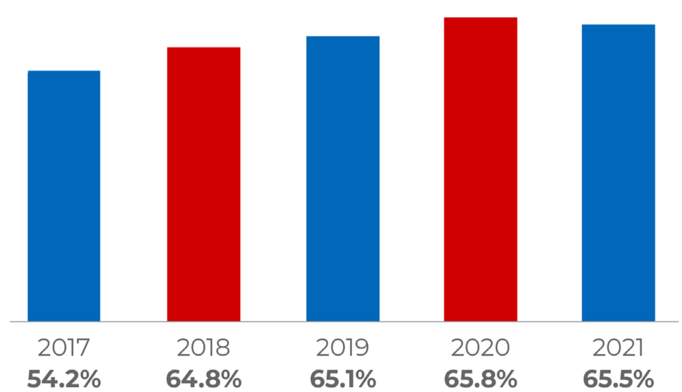
"38% say lack of intergenerational wealth for a down payment is a significant barrier for increasing minority homeownership."
– USMI's *2021 Homeownership Market Survey*

The 20% down payment is increasingly becoming a moving target as home prices skyrocket due to severely low affordable housing supply. These factors have increased market demand and led to great affordability challenges for first-time, minority and LMI buyers. In February 2022, the National Association of REALTORS® (NAR) reported that "[m]ore than 400,000 fewer affordable homes are available for sale for households earning $75,000 to $100,000 when compared to the start of the pandemic," adding that for households earning this income, "there's one affordable listing available for every 65 households – a stark decrease in availability from one affordable listing for every 24 households in 2019 for this income group."[25]

"House prices rose 18.2% from January 2021 to January 2022.[26] Additionally, affordable housing supply continues to decrease when compared to the start of the pandemic. There is one affordable listing for every 64 households in comparison to 24:1 in 2019."
– NAR February 2022 Report[27]

However, this housing market reality has not deterred buyers' wishes to own a home. USMI's survey found that more than 70% of respondents said owning a home is important to stability and financial security.[28] This is consistent with how the national homeownership rate has performed over the past 5 years, as it has steadily increased by more than 10%.

U.S. CENSUS BUREAU HOMEOWNERSHIP RATE DATA (2017-2021)[29]

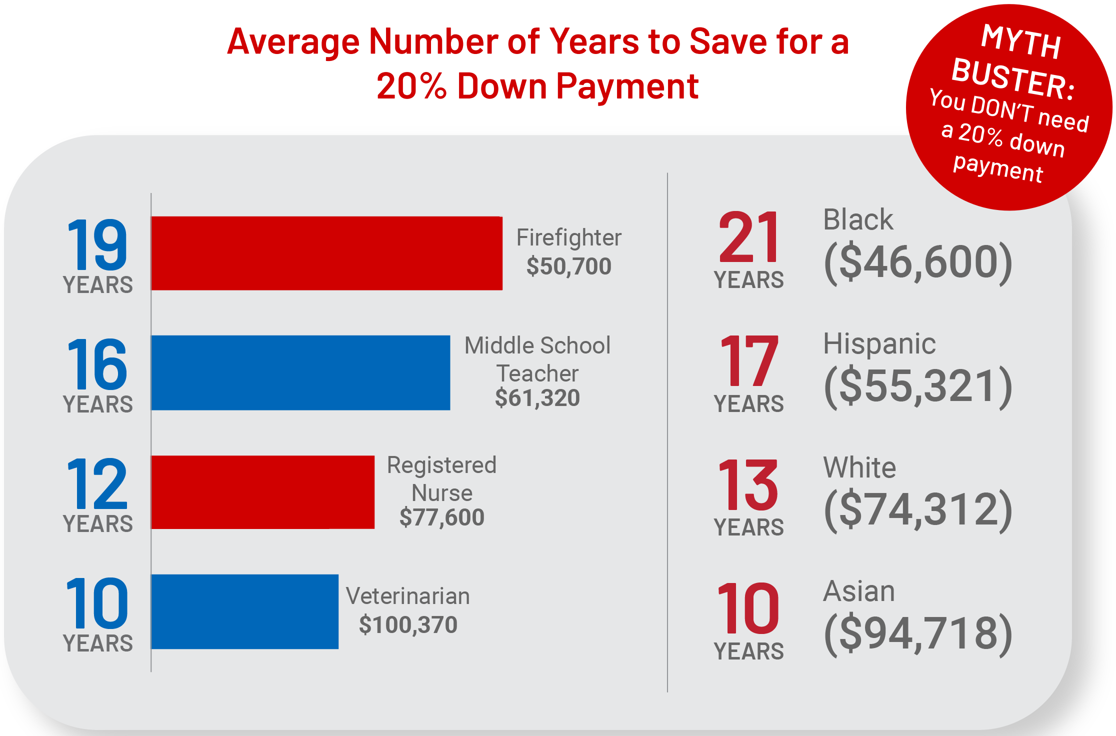


Many wrongly believe you need a significant down payment to secure home financing. USMI's survey found that 45% of respondents mistakenly believe that 20% or more is needed to qualify for a mortgage.[30] However, after MI was explained to them, 73% expressed strong support for access to mortgages with MI in both the conventional and government backed markets. Data finds the typical down payment for first-time buyers has ranged between 6% and 7% since 2018, according to a NAR survey.[31]

It could take 14 years for a household earning the national median income of $67,521[32] to save 20%, plus closing costs, for a $353,400 home, the median sales price for a single-family home in 2021.[33] That's over $70,600 in cash that the borrower would need to bring to the closing table. For minorities, it could take about two decades to save 20%

The below graphic illustrates specific examples, breaking down the number of years it would take people from various professions, races, and ethnicities to save 20% down plus closing costs.

Average Number of Years to Save for a 20% Down Payment

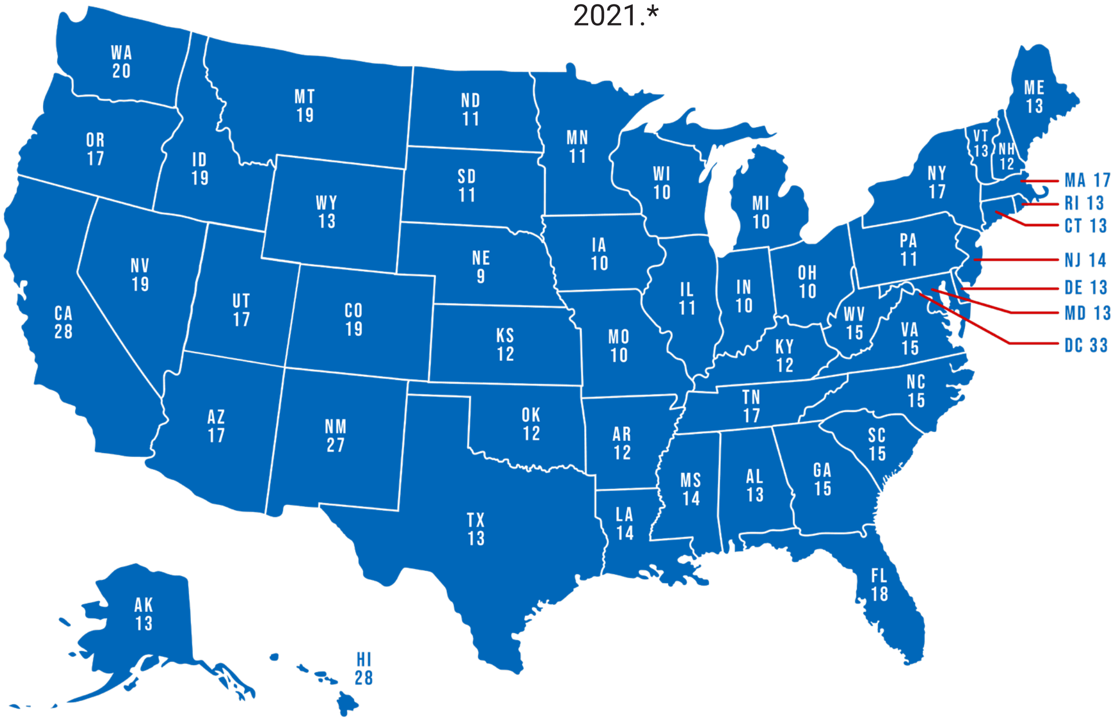


Dollar amounts by occupation,[34] race, and ethnicity[35] represent median income.

HOW MANY YEARS WOULD IT TAKE TO SAVE 20% DOWN PLUS CLOSING COSTS?

The average number of years to save the 20% varies depending on where you live[36] and can unnecessarily delay homeownership for many families. This can result in missed equity and wealth building, and paying more in rent. In fact, over the past year, nationwide rent growth was 12% according to CoreLogic,[37] the fastest year-over-year increase in over 16 years, and was more than 30% in some cities, forcing many people to find another place to live. All the while these families may likely be chasing a moving target as home prices and interest rates that may be attractive today could continue to escalate and become out of reach.

USMI looked at how long it could take prospective borrowers to save a full 20% at the national and state levels based on the average savings rates, median household incomes, and median sales prices. Based on this analysis, prospective homebuyers in DC would have the longest wait time at 33 years, followed by California and Hawaii at 28 years, New Mexico at 27 years, and Washington at 20 years. Prospective homebuyers in Nebraska have the shortest wait time at 9 years, followed by homebuyers in Ohio, Wisconsin, Montana, Michigan, Iowa, and Indiana at 10 years. These calculations are based on the median sales price for single-family properties, median household income, and personal saving rate in 2021.*



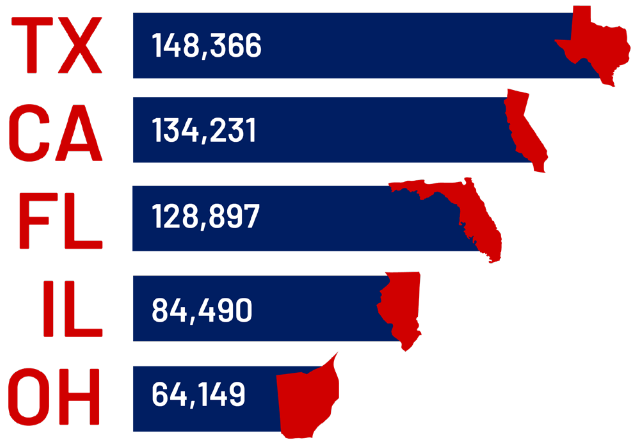
*Number of years to save for a down payment decreased in comparison to USMI's past reports as the personal saving rate reached record highs during the first six months of 2021, largely impacted by consumer spending decreasing, government stimulus checks, and an increase in unemployment insurance.[38] According to a 2020 Congressional Research Service report, the "saving rate usually goes up when there's a decline in general economic activity, but it can quickly fall back down when there are positive signs of growth."[39] The U.S. economy experienced this growth as businesses reopened during the second half of 2021, once the COVID-19 pandemic started to recede. As a result, personal saving rates resumed to regular levels as consumers began spending more and saving less, while the economy also experienced high inflation, limiting people's ability to save.

PRIVATE MI HELPS BRIDGE THE DOWN PAYMENT GAP

By helping borrowers qualify for a mortgage with a down payment as low as 3%, private MI has given more than 37 million families nationally the opportunity to purchase a home sooner or refinance to a lower mortgage interest rate.[40]

In 2021 alone, private MI helped nearly 2 million borrowers purchase or refinance a mortgage.[41] Of the total number of borrowers, more than 40% had annual incomes below $75,000.[42] Additionally, nearly 60% of purchase loans with private MI went to first-time homebuyers.[43] These homebuyers had an average FICO® credit score of 746 and on average took out a home loan with MI for $310,275.[44]

TOP STATES FOR LOW DOWN PAYMENT LOANS BACKED BY PRIVATE MI IN 2021



The table on page 14 shows the number of homeowners helped with private MI nationally, across all 50 states plus Washington, DC, and includes details on the average credit score, home loan amount, and percentage of purchase loans that went to first-time buyers.

NUMBER OF HOMEOWNERS HELPED WITH PRIVATE MI ACROSS ALL 50 STATES AND DC

(Table organizes states from highest to lowest in terms of the number of homeowners helped with private MI)

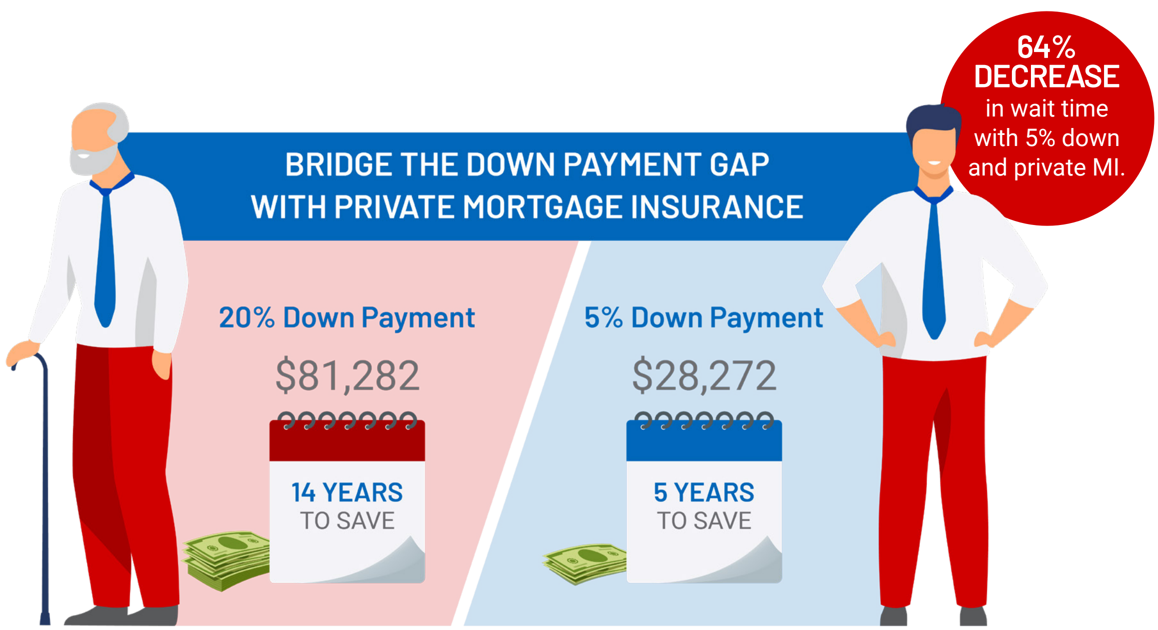
Rank	State	Homeowners Helped by Private MI	% First-Time Homeowners	Avg. Loan Amount	Avg. FICO Score
	National	*1,723,956*	*60%*	*$310,275*	*746*
1	TX	148,366	59%	$300,438	745
2	CA	134,231	72%	$478,119	748
3	FL	128,897	55%	$299,707	744
4	IL	84,490	65%	$250,067	745
5	OH	64,149	60%	$217,314	742
6	NC	63,211	53%	$291,733	749
7	GA	62,398	56%	$299,249	746
8	MI	62,089	61%	$228,120	741
9	PA	62,085	63%	$258,468	746
10	VA	55,624	58%	$361,465	753
11	AZ	49,228	55%	$335,080	745
12	MD	47,731	62%	$355,573	750
13	MN	45,912	63%	$282,475	748
14	CO	45,623	62%	$396,474	752
15	NY	44,514	70%	$342,260	746
16	WA	44,076	68%	$438,935	750
17	NJ	43,393	69%	$359,262	746
18	IN	40,845	56%	$222,944	741
19	MO	37,231	53%	$233,362	744
20	TN	36,696	50%	$298,072	747
21	WI	36,683	65%	$236,301	744
22	SC	32,500	48%	$268,407	747
23	MA	27,176	73%	$404,344	747
24	UT	25,222	55%	$382,801	749
25	OR	24,902	67%	$380,175	751
26	AL	24,391	44%	$253,520	746
27	NV	21,859	59%	$338,043	744
28	LA	20,120	46%	$252,147	745
29	KY	19,995	54%	$226,176	743
30	IA	19,471	60%	$206,047	743
31	CT	19,149	69%	$288,309	744
32	OK	18,749	45%	$231,474	746
33	KS	15,873	55%	$228,689	743
34	AR	13,254	43%	$233,838	746
35	NE	12,019	63%	$226,264	744
36	NM	9,824	55%	$261,808	746
37	ID	9,597	55%	$344,687	745
38	MS	8,972	43%	$236,206	742
39	DE	7,066	51%	$305,242	746
40	NH	7,021	62%	$324,724	744
41	WV	5,897	50%	$213,275	742
42	ME	5,431	55%	$279,489	745
43	SD	4,978	55%	$242,868	748
44	MT	4,861	53%	$309,045	748
45	RI	4,590	64%	$310,651	747
46	ND	4,569	48%	$252,773	750
47	DC	4,311	75%	$495,309	764
48	HI	3,876	66%	$512,813	751
49	AK	3,359	50%	$326,594	753
50	WY	3,177	45%	$274,977	747
51	VT	2,254	56%	$270,932	749

PRIVATE MI HELPS BORROWERS AFFORD A HOME SOONER: SAVING FOR A 5% VS. 20% DOWN PAYMENT

Purchasing a home with a conventional loan backed by private MI allows borrowers to qualify for a mortgage with as little as 3% down and provides a safe and sustainable loan option. A lower down payment dramatically decreases the number of years needed to save to transition from renting to homeownership. The typical down payment for first-time buyers ranges between 6% and 7% since 2018, according to a NAR survey.[45] Here USMI looks at the scenario of putting 5% down instead of 20%.

While it could take 14 years for a household earning the national median income of $67,521[46] to save 20% (plus closing costs) for a $353,400 home,[47] the time drops to 5 years if the household purchases a home with 5% down.

Private MI not only helps borrowers overcome the biggest hurdle to homeownership, but also enables them to retain some of their savings, which can significantly help borrowers who may have unexpected costs such as home repairs. In addition to these borrower benefits, private MI reduces risk in the mortgage market. Private MI acts as a second set of eyes, providing independent credit underwriting standards to ensure borrowers receive mortgages that promote sustainable homeownership. Private mortgage insurers' underwriting function aligns with the interests of borrowers, lenders, and investors.



Total cash required by the borrower at closing, which includes closing costs (an average 3% of median sales price for a single-family residence).[48]

A STATE-BY-STATE LOOK AT 20% VS 5% DOWN

The number of years to save 5% for a loan backed by private MI dramatically decreases compared to saving for the traditional 20% down payment, resulting in a 64% decrease in wait times across all the states.

(Table is ordered from highest to lowest in terms of the number of years it takes homeowners to save 20% down)

State	Median Household Income[49]	Median Sales Price for Single-Family Income[50]	20% Down Payment		5% Down Payment	
			Years to Save	Total Cash Needed at Closing	Years to Save	Total Cash Needed at Closing
US	*$67,521*	*$353,400*[51]	*14*	*$81,282.00*	*5*	*$28,272.00*
DC	$88,311	$1,056,250	33	$242,937.50	11	$84,500.00
CA	$77,358	$795,200	28	$182,896.00	10	$63,616.00
HI	$80,729	$832,900	28	$191,567.00	10	$66,632.00
NM	$50,822	$509,400	27	$117,162.00	10	$40,752.00
WA	$81,083	$588,950	20	$135,458.50	7	$47,116.00
CO	$82,611	$578,100	19	$132,963.00	7	$46,248.00
ID	$66,499	$462,950	19	$106,478.50	7	$37,036.00
MT	$56,442	$396,000[52]	19	$91,080.00	7	$31,680.00
NV	$60,956	$422,700	19	$97,221.00	7	$33,816.00
FL	$57,435	$371,600	18	$85,468.00	6	$29,728.00
AZ	$66,628	$419,050	17	$96,381.50	6	$33,524.00
MA	$86,725	$546,600	17	$125,718.00	6	$43,728.00
OR	$76,554	$485,350	17	$111,630.50	6	$38,828.00
TN	$54,665	$341,600	17	$78,568.00	6	$27,328.00
UT	$83,670	$533,350	17	$122,670.50	6	$42,668.00
NY	$68,304	$411,950	17	$94,748.50	6	$32,956.00
GA	$58,952	$331,100	15	$76,153.00	5	$26,488.00
NC	$60,266	$336,400	15	$77,372.00	5	$26,912.00
SC	$60,097	$325,650	15	$74,899.50	5	$26,052.00
VA	$81,947	$440,600	15	$101,338.00	5	$35,248.00
WV	$51,615	$282,100	15	$64,883.00	5	$22,568.00
LA	$50,935	$260,200	14	$59,846.00	5	$20,816.00
MS	$44,966	$228,350	14	$52,520.50	5	$18,268.00
NJ	$85,239	$426,300	14	$98,049.00	5	$34,104.00
RI	$80,012	$393,900	13	$90,597.00	5	$31,512.00
VT	$66,902	$329,100	13	$75,693.00	5	$26,328.00
AL	$54,393	$258,100	13	$59,363.00	5	$20,648.00
CT	$79,043	$377,050	13	$86,721.50	5	$30,164.00
DE	$69,132	$330,500	13	$76,015.00	5	$26,440.00
ME	$63,440	$306,950	13	$70,598.50	5	$24,556.00
MD	$94,384	$451,950	13	$103,948.50	5	$36,156.00
TX	$68,093	$332,400	13	$76,452.00	5	$26,592.00
WY	$65,108	$305,500[53]	13	$70,265.00	4	$24,440.00
AK	$74,476	$345,250	13	$79,407.50	4	$27,620.00
KS	$72,815	$328,400	12	$75,532.00	4	$26,272.00
NH	$88,235	$394,800	12	$90,804.00	4	$31,584.00
AR	$50,540	$219,700	12	$50,531.00	4	$17,576.00
KY	$56,525	$241,600	12	$55,568.00	4	$19,328.00
OK	$52,341	$221,150	12	$50,864.50	4	$17,692.00
MN	$78,461	$327,350	11	$75,290.50	4	$26,188.00
ND	$63,657	$267,000[54]	11	$61,410.00	4	$21,360.00
PA	$70,117	$289,450	11	$66,573.50	4	$23,156.00
IL	$73,753	$290,500	11	$66,815.00	4	$23,240.00
SD	$69,787	$273,000[55]	11	$62,790.00	4	$21,840.00
IN	$66,360	$251,850	10	$57,925.50	4	$20,148.00
IA	$68,469	$251,100	10	$57,753.00	3	$20,088.00
MI	$63,829	$229,700	10	$52,831.00	3	$18,376.00
MO	$61,901	$233,400	10	$53,682.00	4	$18,672.00
WI	$67,094	$251,750	10	$57,902.50	4	$20,140.00
OH	$60,110	$214,400	10	$49,312.00	3	$17,152.00
NE	$72,024	$247,650	9	$56,959.50	3	$19,812.00

PRIVATE MI BENEFITS FIRST-TIME HOMEBUYERS

Saving 20% for a down payment is particularly tough for first-time homebuyers who may not have as much in savings as repeat homebuyers, who may have equity or sale proceeds from their current or previous homes to use towards their next home purchase and are often higher wage earners. According to NAR's *2021 Profile of Home Buyers and Sellers*,[56] the market remains strong for first-time buyers in the conventional market. In 2021, "[t]he share of first-time home buyers increased from 31% to 34%, which is the largest jump since 2017."[57]

But as home prices increase, first-time homebuyers could be priced out of the market. NAR's Vice President of Demographics and Behavioral Insights Jessica Lautz stated, "these buyers also face soaring rent prices and high student debt balances, which makes it extremely difficult to save for a down payment."[58] In fact, NAR's *December 2021 Confidence Index*[59] reported that the share of first-time homebuyers fell to 26%, the lowest since January 2014. NAR's *March Confidence Index*[60] reported a slight increase to 30%, although the share was below the level one year ago (29% in the prior month; 32% one year ago). The latest report also indicates that 69% of first-time homebuyers put less than 20% for a down payment.[61]

In addition, USMI's 2021 data shows that first-time homebuyers (60%) make up a significant segment of those securing conventional purchase loans backed by private MI.[62] According to USMI member MGIC, "68% of Millennial first-time homebuyers wish to put down less than 20%; 12% say they could put more down but would like to save money for other investments."[63] Private MI

60% of borrowers who secured conventional purchase loans with private MI were first-time homebuyers.
- GSE Aggregate Data

also benefits recurring homebuyers as it also allows those who are able to put a 20% down to put down less so they can keep some cash for investments, home improvements, or a rainy-day fund.

In 2017, the Urban Institute released a report that examined the industry's 60-year history of providing this important risk protection against low down payment loans, and the positive role private MI has served for homebuyers and the mortgage finance system overall.[64] The report's chartbook, which was updated in 2019 and again in 2021, notes the important role private MI plays in helping to ensure LMI and first-time homebuyers have access to the conventional market. It details that private MI is more affordable than loans backed by the Federal Housing Administration (FHA) for most combinations of FICO score and loan-to-value (LTV) ratios of 95%, 90%, and above 80%. Their analysis also finds that, compared to conventional borrowers without private MI, borrowers with private MI tend to have slightly lower credit scores, higher LTV ratios, and slightly higher debt-to-income (DTI) ratios, and are more likely to be first-time homebuyers.[65]

> ***Bottomline: Private MI is highly effective in allowing more qualified borrowers to enter the mortgage market and achieve homeownership, while significantly reducing losses to the GSEs, which in turn reduces risk to taxpayers.***

PRIVATE MI IS SHORT-TERM, BUT BENEFITS ARE LONG-TERM

Private MI benefits homebuyers because it helps them qualify for mortgage financing sooner, and the cost is temporary. Unlike the MI premiums paid on the vast majority of loans insured by the FHA and other government-backed programs, which typically cannot be cancelled, private MI paid by the borrower can be cancelled once a certain amount of equity is attained, leading to lower monthly mortgage payments in the long term. Typically, borrowers with private MI are able to cancel after five to seven years.

Two Ways to Cancel Private MI[66]

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

Consumers should be fully informed of all their loan options with MI, including the benefits of private MI, before making one of the most significant purchases in their lives.

Home Loan Options with MI

	Private MI on Conventional Loans	MI Premiums on FHA Loans
How It Works	Private MI satisfies GSE requirements for borrowers to purchase a home with a down payment as low as 3%. Private MI protects lenders against losses if a borrower defaults.	FHA is a government-administered mortgage insurance program. The FHA requires a 3.5% down payment.
Consumer Impact	Private MI coverage and premiums paid by a borrower cancel when the mortgage LTV reaches approximately 78%. If a borrower experiences financial hardship, private MI companies have strong financial incentives to help borrowers avoid foreclosure, often through loan modifications.	Most FHA insurance premiums never cancel, and borrowers must pay insurance premiums for the entire life of the loan. In addition to the annual insurance premiums, borrowers pay an Upfront Mortgage Insurance Premium that is typically financed into the mortgage loan amount.
Tax Treatment	Private MI premiums are treated as "mortgage interest" and are tax deductible for many borrowers through 2021.	FHA insurance premiums are treated as "mortgage interest" and are tax deductible for many borrowers through 2021.

PRIVATE MI PROTECTS TAXPAYERS

Every dollar that a private MI company covers when a borrower defaults on their mortgage is a dollar that the GSEs, Fannie Mae and Freddie Mac, and therefore taxpayers, do not have to pay. With the GSEs in conservatorship and the government currently serving as their backstop, taxpayers face exposure to mortgage credit losses experienced by the GSEs. Traditionally, for loans with down payments less than 20% of the home value, private mortgage insurers—not taxpayers—cover the first losses in the event a borrower defaults, up to certain coverage limits.

43%

Portion of newly insured mortgages that private MI protected in 2021.[67]

Nearly $1.4 Trillion

Amount in mortgages outstanding with private MI protection at the end of 2021.[68]

Nearly $60 Billion

Amount private MI industry covered in claims for losses since the 2008 financial crisis.[69]

According to the Urban Institute, private MI is highly effective in reducing losses to the GSEs and analysis shows that GSE losses on loans with LTV ratios above 80% are at the same levels as the losses they experience on loans with LTV ratios up to 80%, due to the risk protection provided by private MI.[70]

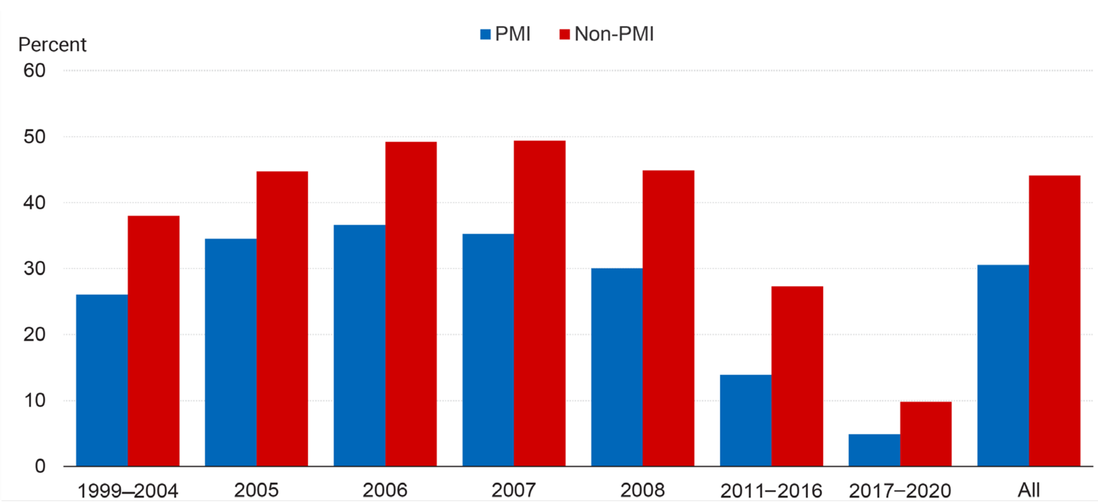
PRIVATE INSURED MORTGAGES EXPERIENCE SIGNIFICANTLY LOWER LOSS SEVERITIES AND REDUCE TAXPAYER RISK

According to the Urban Institute, the presence of private MI makes it easier for borrowers with limited down payments to access conventional mortgage credit. This is the primary function of private MI: to help borrowers qualify for home financing.

> ***The Urban Institute's analysis found that loans without private MI experience nearly 45% greater loss severity compared to loans with private MI.[71]***

Moreover, historical experience and data show that private MI works. The Urban Institute analysis shows that GSE loans with private MI consistently have lower loss severities than those without private MI. In fact, for more than 20 years, conventional loans with private MI have exhibited lower loss severity for each origination year. According to the Urban Institute, the loss severity of GSE loans without private MI for the 1999-2020 origination period was 41.2%, which was significantly higher than the 28.7% severity for GSE loans with private MI during the same time period.[72] This amounts to loans without private MI experiencing nearly 45% greater loss severity compared to loans with private MI.

Loss Severity for GSE Loans with and without PMI, by Origination Year Groupings[73]



DTI = debt-to-income ratio; FRM 30 = 30-year fixed rate mortgage; LTV = loan-to-value ratio; PMI = private mortgage insurance.
Home Affordable Refinance Program loans are included and counted as refinances.

This data, coupled with the nearly $60 billion in claims the private MI industry has paid since the GSEs entered conservatorship, underscores how private MI provides significant first-loss risk protection for the government and taxpayers. By design, private 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. Unlike most other forms of private capital in the housing finance system, it has also been available during economic downturns.

The private MI industry, like nearly all other financial services industries, was tested like never before through the 2008 financial crisis. Over a decade later, the MI industry is stronger than ever with more robust underwriting standards, stronger capital positions, and improved risk management.[74] Additionally, private mortgage insurers have materially increased their claims-paying ability in both good and bad economic times due to higher capital requirements and reserves, and enhanced operational standards under the GSEs' PMIERs.[75]

Since its implementation in 2015, PMIERs nearly doubled the amount of capital each mortgage insurer is required to hold, which allowed the private MI industry to enter the COVID-19 crisis from a position of financial strength. USMI member companies have maintained levels significantly over the PMIERs requirements, with each company holding hundreds of millions in excess. At the end of 2021, private MI companies collectively held approximately $10.3 billion in excess of these requirements, a sufficiency ratio of 170%—holding 70% more capital than the required regulatory threshold.[76] This furthered the private MI industry's ability to support lenders and borrowers over the past year while operating in a unique and unpredictable market. Throughout 2020 and 2021, all USMI members were able to raise capital in the debt and equity markets in order to scale up and support the increased volume.

Private MI companies collectively hold ~$10.3 billion in excess of PMIERs required capital requirements.
- MI Companies' 2021 Annual Reports

In fact, there is no other GSE counterparty with capital and operational standards as robust as private mortgage insurers. These developments have helped strengthen mortgage insurers as new reforms better position the industry to further shield the GSEs and taxpayers from mortgage credit risk, while also expanding access to homeownership for the next 65 years and beyond.

CONCLUSION

For 65 years, private MI has proven to be a reliable source that helps first-time and LMI borrowers achieve their dream of buying a home, while keeping some necessary cash on hand in the event of unforeseen hardships.

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

Finally, private MI benefits the government and taxpayers because it stands in front of the GSEs on credit risk and losses. When private mortgage insurers pay claims on mortgages backed by the GSEs, each dollar represents an amount the government, and therefore taxpayers, did not have to pay.

Through its role as a second set of eyes with independent credit underwriting standards, private mortgage insurers support disciplined underwriting in the mortgage finance system, and ultimately help ensure borrowers have access to affordable and sustainable credit—benefitting the GSEs, lenders, investors and, most importantly, families.

Private MI has played a critical role in helping millions achieve affordable home financing, while also protecting lenders, the government, and taxpayers. As a result, the industry is well-positioned to provide this important function in the housing system of tomorrow.

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