U.S. MORTGAGE INSURERS

June 2023

PRIVATE MORTGAGE INSURANCE

Benefiting Homebuyers and the Housing Finance System for 66 Years

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

ABOUT USMI

U.S. Mortgage Insurers (USMI) is dedicated to a housing finance system backed by private capital that enables access to affordable and sustainable 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.

CONTENTS

INTRODUCTION

Private mortgage insurance (MI) has been an important component of the U.S. housing finance system for 66 years. First, as a means to help millions of home-ready borrowers access affordable mortgage financing with low down payments; and second, as the first layer of protection for the government-sponsored enterprises (GSEs), lenders, and taxpayers from mortgage credit risk. Private MI remains the leading way Americans without a 20% down payment are able to become homeowners.

Amassing a large down payment is the primary hurdle for many prospective homebuyers and waiting could cost them a chance to build equity and stability in the long term. Today, potential homebuyers are contending with higher interest rates, elevated home prices and constrained inventory in many markets. That is why access to low down payment mortgage financing through private MI has become increasingly important. With private MI, potential homebuyers can put down as little as 3%. This eliminates one of the largest hurdles to homeownership, as it could take 35 years[1] for a median income household to save up for a 20% down payment plus closing costs.

USMI has released an annual report since 2018, which looks at how private MI helps bridge the down payment gap and analyzes at a state level who specifically benefits from private MI. Low down payment mortgages, including conventional loans backed by private MI, have proven critical for millions of borrowers to sustainably buy a home sooner, secure financial stability, and build intergenerational wealth.

Since 1957, private MI has helped more than 38 million families become homeowners.[2] In 2022, the private MI industry helped over 1 million borrowers secure mortgage financing.[3] Last year, almost 62% of purchase loans with private MI went to first-time homebuyers[4] and nearly 35% of borrowers securing financing with private MI had annual incomes below $75,000.[5] Further, the industry supported nearly $402 billion in mortgage originations for new home purchases and refinanced loans.[6] Private MI truly serves first-time, minority, and low- to moderate-income (LMI) buyers who are not able to amass a large down payment and otherwise would not be able to access the conventional mortgage market.

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 2022, the industry insured $1.5 trillion in outstanding mortgages with active private MI coverage.[7] The industry also held nearly $11 billion of eligible assets in excess of the GSEs' Private Mortgage Insurer Eligibility Requirements (PMIERs), which represented a 172% sufficiency ratio. This data underscores the industry's critical role as a strong, reliable first layer of protection against credit risk in the GSE-backed conventional mortgage market.

Given the vital role private MI plays in the housing finance system, private MI providers are well-positioned to both lead with innovation and support broader initiatives to increase borrower access to affordable and sustainable mortgage credit. The private MI industry is keen to work collaboratively with policymakers, regulators, the GSEs, market participants, and consumer advocates to reach more first-time, minority, and LMI borrowers while ensuring safeguards remain in place to promote safety and soundness in the housing finance system.

*The information in this report is retrospective, relating to the housing market and private MI activity in 2022 only. Therefore, it should not be used to make projections for 2023 as it does not account for current home price appreciation rates, mortgage rates, inflation, and other economic factors that impact the housing market.

BENEFITING HOMEBUYERS AND THE HOUSING FINANCE SYSTEM

In 2022, the private MI industry **helped over 1 million low down payment borrowers** secure mortgage financing,[8] representing **approximately $402 billion in mortgage originations**[9] — more than 97% of which were for new purchases.[10] This resulted in approximately **$1.5 trillion in outstanding mortgages with active private MI coverage** at the end of 2022,[11] underscoring the industry's critical role of serving as the first layer of protection against credit risk in the GSE-backed conventional mortgage market.

Private MI is particularly important for first-time, minority, and LMI homebuyers who face several barriers to securing a home. A study by the National Association of REALTORS® (NAR) titled, "2022 Obstacles to Home Buying," examined the biggest challenges identified by potential and successful homebuyers across different races and ethnicities.[12] It found that the second-ranking obstacle faced among potential Hispanic buyers was difficulty saving for a down payment. For potential Black homebuyers, lack of credit or credit issues was the second-highest concern, while for White and Asian potential buyers it was a lack of homes that fit their criteria.

"Reflecting on the home buying process, both potential and successful home buyers across the races/ethnicities tested say they faced or are facing obstacles like a lack of affordable homes, a lack of homes that fit their criteria, competing with multiple offers, and saving for a down payment." – NAR's "2022 Obstacles to Home Buying" study

NAR's study mirrors similar challenges to those found in USMI's "2021 National Homeownership Market Survey"[13] that found the top barriers to homeownership to be lack of affordable housing, home insecurity, low housing supply, and a misunderstanding of down payment requirements. The USMI study also found that respondents view mortgage insurance 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.

"It is critical that affordable, sustainable low down payment mortgages are available to meet borrowers' needs. Private MI helps borrowers who do not have significant down payments gain access to affordable mortgage finance credit and succeed as sustainable homeowners." – USMI's "2021 National Homeownership Market Survey"

As homeownership costs rise, a working paper from Fannie Mae reveals what drives those costs. The paper, “Mortgage costs as a share of housing costs-placing the cost of credit in broader context,”[14] highlights 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 [guarantee]-fees (roughly four percent) and [private MI] (roughly one to three percent) are a relatively small part of the cost of homeownership.” Additionally, the paper notes that “the overall breakdown of costs for [first-time homebuyers] borrowers is similar to that of the average borrower. Once again, non-mortgage ongoing costs comprise roughly half of total costs, and mortgage-costs are 32%. The largest components of overall costs are still the property taxes, interest charges net of fees and GOS, the broker fees paid at sale, utility costs, and capital improvement expenditures.” The paper also notes that the cost of mortgage insurance for the typical first-time homebuyer is 2.5%, a small cost overall in exchange for the opportunity of getting into a home sooner, locking in housing costs, and building equity and intergenerational wealth.

“The largest contributors to housing costs are consistently non-mortgage ongoing costs...[private MI] (roughly 1-3%) [is] a relatively small part of the cost of homeownership.” – Fannie Mae’s “Mortgage costs as a share of housing costs-placing the cost of credit in broader context”

USMI worked closely with federal policymakers, industry groups, and consumer organizations to support and advocate for low down payment homebuyers and homeowners throughout 2022. The organization sent letters[15,16,17] in support of bipartisan legislative initiatives to make permanent the ability of homeowners to deduct MI premiums from federal income taxes; submitted a comment letter[18] to the Federal Housing Finance Agency (FHFA) on its proposed “Strategic Plan for Fiscal Years 2022-2026;”[19] expressed support[20] for efforts[21] to remove barriers to homeownership, increase access and affordability, and promote sustainable homeownership for minority homebuyers; and supported[22] FHFA’s holistic review of the GSEs’ pricing frameworks, particularly the appropriateness of upfront fees which may be duplicative on loans with private mortgage insurance risk protection;[23] 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 PMIERs, which were developed and are periodically updated by the GSEs and FHFA. At the end of 2022, the private MI industry held a collective $25.8 billion[24] in qualifying PMIERs assets, which represented a 172% sufficiency ratio — meaning the industry held 72%[25] more capital than the required regulatory threshold. This furthered the industry's ability to support lenders and borrowers over the past year while operating in a rapidly evolving economic environment and housing market.

The private MI industry holds 72% more capital than the required regulatory threshold at the end of 2022. – MI Companies' 2022 Annual Reports

The private MI industry is better positioned today than ever to support borrowers and provide private capital solutions that insulate lenders, the GSEs, and ultimately taxpayers from risk and loss. Since 2008, the private MI industry transformed its business model through enhanced capital, risk, and operational standards in order to further enhance its resiliency and ability to withstand severe economic stress. The terms of private MI coverage, the regulatory framework governing the industry, its asset requirements and capital position, and its underwriting standards have all fundamentally changed. The performance of the private MI industry through the COVID-19 pandemic underscores its strength to the housing finance system, providing uninterrupted support to lenders and borrowers at a time when it was needed most.

In its 66-year history, the private MI industry has enabled more than 38 million[26] people to access affordable, low down payment mortgages. In 2022, nearly 62% of purchase loans backed by private MI went to first-time homebuyers,[27] nearly 35% went to borrowers with incomes below $75,000,[28] and the average loan amount with private MI was $341,716.[29]

Nearly **35%** of borrowers have incomes below **$75,000**

MI helped more than **38 MILLION** families nationally become homeowners since 1957

The average loan amount (purchase and refinance) with MI is **$341,716**

Nearly **62%** of purchasers are first-time homebuyers

DOWN PAYMENT: ONE OF THE BIGGEST HURDLES TO HOMEOWNERSHIP

For many Americans, the biggest hurdle in buying a home is the 20% down payment that 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 biggest homebuying challenges. Thirty-eight percent of respondents said lack of intergenerational wealth for a down payment is a significant barrier for increasing the number of minorities that own their own homes.[30]

"38% of respondents said lack of intergenerational wealth for a down payment is a significant barrier for increasing the number of minorities that own their own homes." – USMI's "2021 National Homeownership Market Survey"

Homeownership is the cornerstone of the American dream. It provides financial security, enhances family and community stability, and builds intergenerational wealth. But with mortgage rates nearly doubling between January to December of 2022[31] and home prices remaining high, access to affordable, low down payment financing is more critical than ever, particularly for first-time buyers, who are being squeezed out of the market.

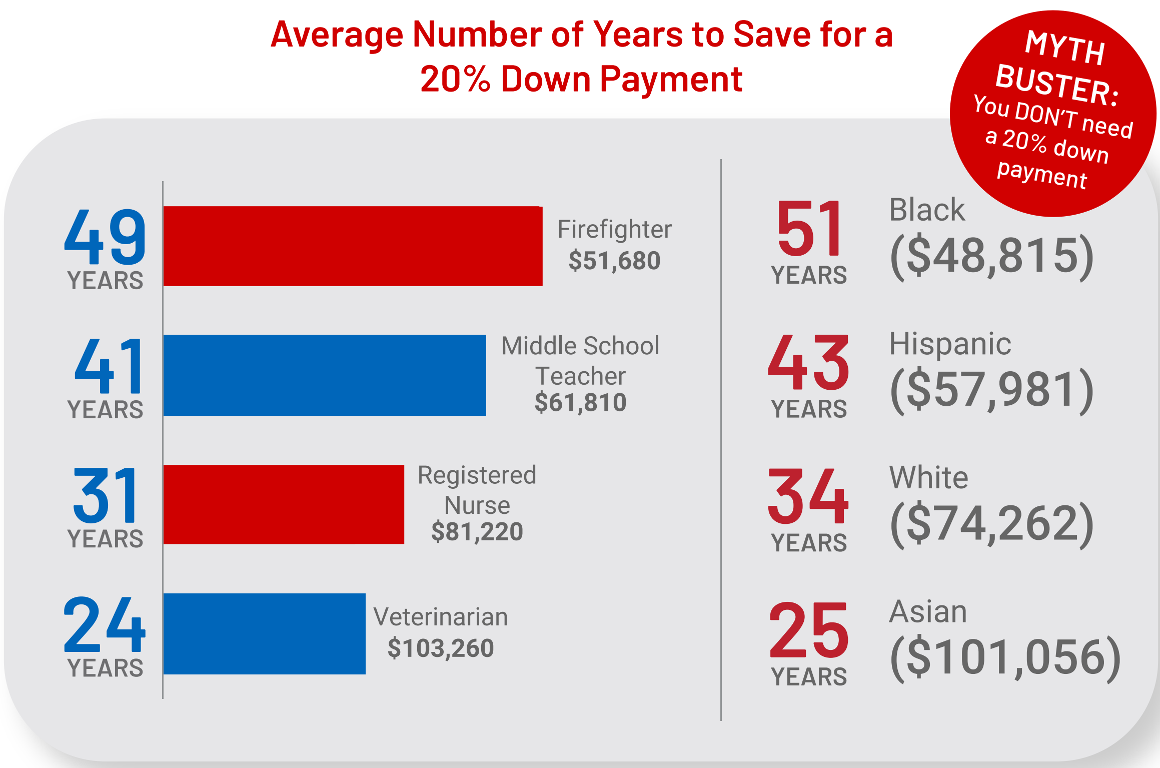
According to NAR, in 2022, first-time buyers' share of the market dropped to a record low of 26%, down from 34% in 2021, and their average age increased to an all-time high — 36 years of age, up from 33 a year ago.[32] Historically, first-time buyers propelled the market forward, according to Freddie Mac.[33]

"First-time buyers' share of the market dropped to a record low of 26%, down from 34% in 2021, and their average age increased to an all-time high — 36 years of age, up from 33 a year ago." – National Association of REALTORS®

Providing access to low down payment options to first-time, minority, and LMI borrowers is critical given that 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.[34] 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. [35]

"It could take 35 years[36] for a household earning the national median income of $70,784[37] to save 20%, plus closing costs, for a $392,800 home, the median sales price for a single-family home in 2022.[38] That's $90,334 in cash that the borrower would need to bring to the closing table."

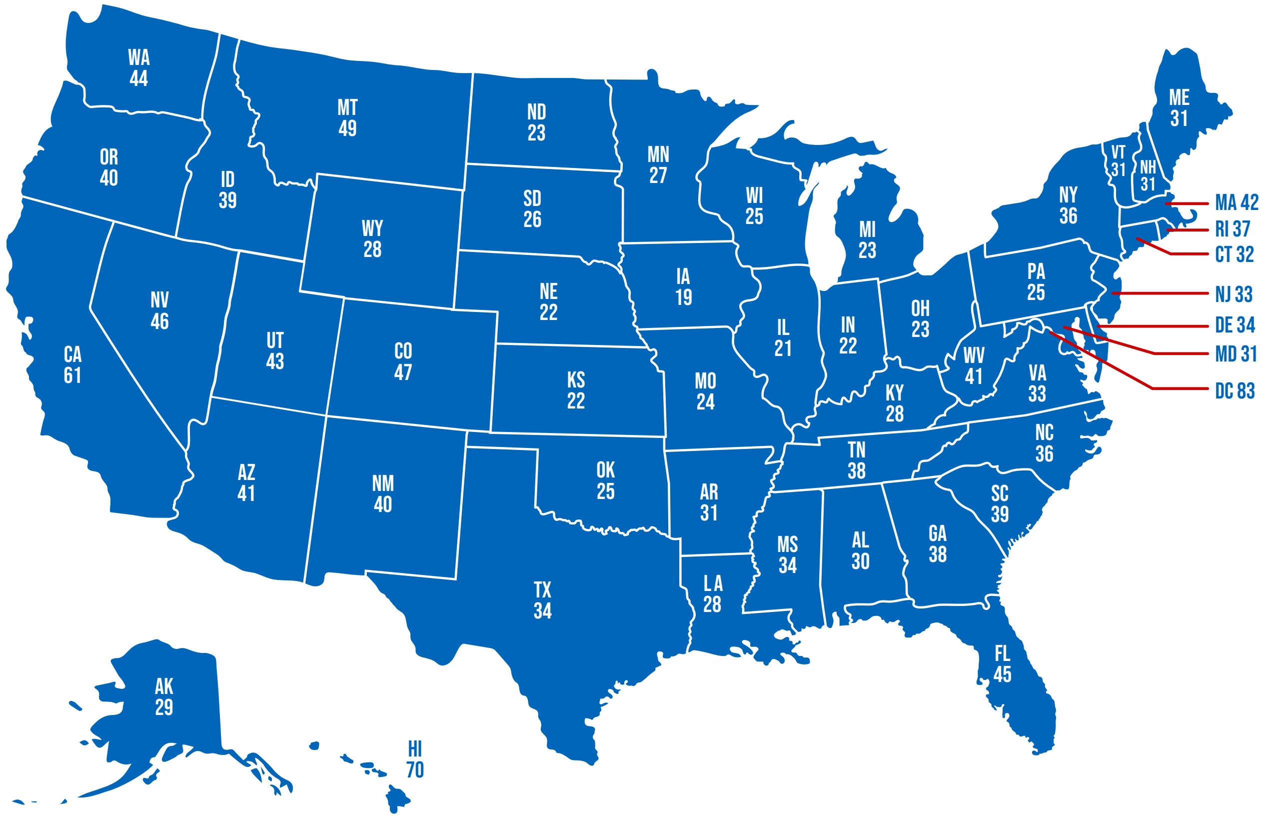
The below graphic breaks down the number of years it would take people from various professions, races, and ethnicities to save 20% down plus closing costs.



Dollar amounts by occupation,[39] race, and ethnicity[40] represent median income.

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

The average number of years to save 20% varies depending on where you live[41] and can unnecessarily delay homeownership for many families. This can result in missed equity and wealth building and paying more in rent. All the while these families may likely be chasing a moving target as home prices and interest rates could continue to escalate. In analyzing the data, the wait times to save for 20% are impractical and in one extreme case surpasses the average lifespan in America. USMI looked at how long it could take prospective borrowers to save a full 20% at the national and state levels based on the median savings rates, median household incomes, and median sales prices. Based on this analysis, prospective homebuyers in DC would have the longest wait time at 83 years, followed by Hawaii at 70 years, California at 61 years, Montana at 49 years, and Colorado at 47 years. Prospective homebuyers in Iowa have the shortest wait time at 19 years. These calculations are based on the median sales price for single-family homes based on Redfin and Zillow data gathered in 2022, median household income in 2021 based on data from the U.S. Census Bureau (latest available), and personal saving rate based on data gathered from the Federal Reserve in 2022.*[1]



*The average number of years to save in USMI's 2021 report was substantially influenced by a higher rate of savings, driven by the provisioning of COVID-19 stimulus and reduced household spending for travel, entertainment, and other segments of the economy impacted by the pandemic.

PRIVATE MI BENEFITS FIRST-TIME HOMEBUYERS

By helping borrowers qualify for a mortgage with a down payment of as low as 3%, private MI has given more than 38 million families nationally the opportunity to purchase a home sooner.[42] In 2022, private MI helped over 1 million borrowers purchase or refinance a mortgage.[43] Of the total number of borrowers, nearly 35% had annual incomes below $75,000. Additionally, nearly 62% of purchase loans with private MI went to first-time homebuyers.[45] These homebuyers had an average FICO® credit score of 746 and on average took out a home loan for $341,716.[46]

TOP STATES FOR LOW DOWN PAYMENT LOANS BACKED BY PRIVATE MI IN 2022

The table on the next page 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)

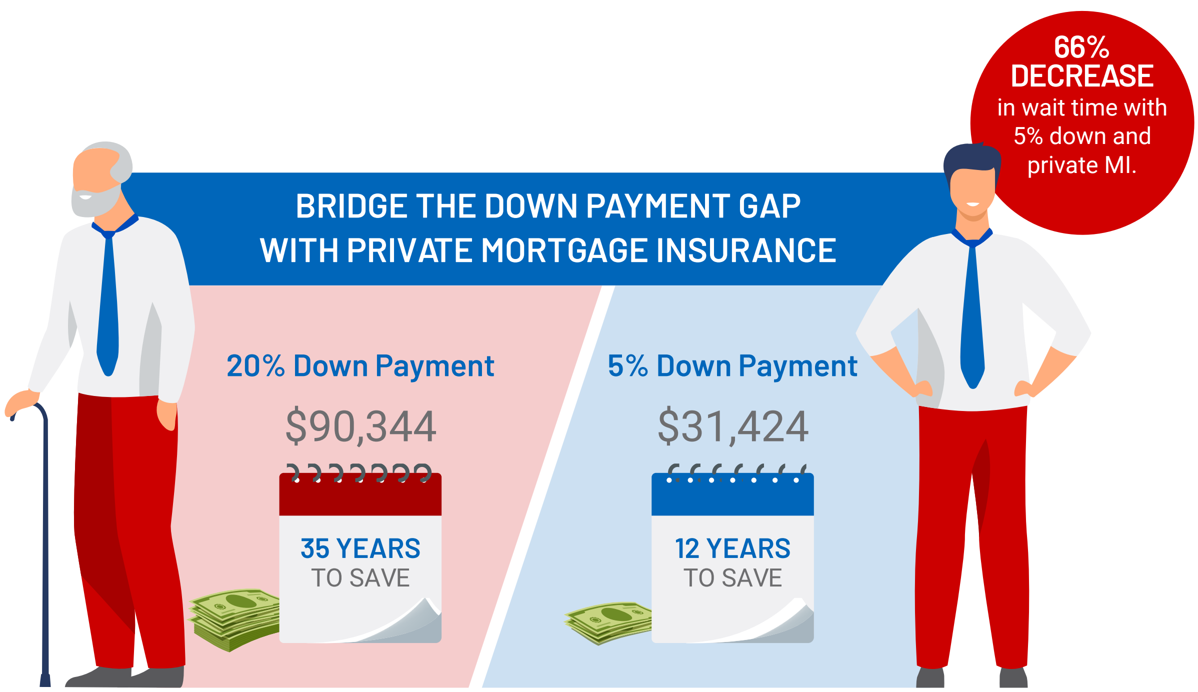
Rank	State	Homeowners Helped	% of First-Time Homebuyers	Average Loan Amount	Average FICO Score
	U.S.	*Over 1 million*	*61.86%*	*$341,716*	*746*
1	TX	99,925	62.20%	$349,535	745
2	FL	76,451	57.04%	$353,578	744
3	CA	67,003	71.92%	$522,324	749
4	IL	48,168	66.80%	$265,655	744
5	OH	40,515	62.03%	$232,278	742
6	GA	38,571	59.29%	$347,237	746
7	PA	38,290	65.42%	$275,987	746
8	NC	37,425	57.61%	$338,724	749
9	MI	37,103	63.11%	$245,727	742
10	VA	29,619	60.51%	$378,204	752
11	AZ	28,804	57.66%	$397,374	748
12	IN	26,755	59.78%	$246,361	741
13	MN	26,618	66.57%	$306,187	747
14	NY	26,111	71.80%	$359,769	745
15	WA	25,144	66.65%	$480,534	751
16	CO	25,107	63.04%	$451,988	754
17	MD	24,357	63.32%	$377,603	749
18	NJ	23,777	72.04%	$382,995	745
19	TN	22,277	52.54%	$340,334	748
20	MO	21,802	57.81%	$252,710	744
21	SC	18,612	52.09%	$306,308	747
22	WI	18,536	66.70%	$255,232	744
23	OR	14,526	64.32%	$429,386	753
24	UT	14,252	56.73%	$451,723	750
25	AL	13,703	47.73%	$280,070	746
26	MA	13,211	71.97%	$430,700	746
27	NV	12,080	61.30%	$402,019	745
28	LA	11,791	49.32%	$274,487	746
29	OK	11,717	49.33%	$257,216	746
30	KY	11,599	56.40%	$248,071	743
31	CT	10,839	70.56%	$306,575	743
32	IA	9,629	62.29%	$213,046	740
33	KS	9,110	57.51%	$249,676	744
34	AR	7,673	48.60%	$259,375	747
35	NE	7,270	63.05%	$246,018	743
36	NM	5,636	55.76%	$293,190	747
37	ID	5,472	57.67%	$390,740	748
38	MS	5,046	47.33%	$259,103	742
39	DE	3,974	56.45%	$346,037	746
40	NH	3,974	65.01%	$363,447	745
41	WV	3,386	54.10%	$225,525	740
42	ME	2,953	58.83%	$313,121	743
43	SD	2,876	60.08%	$272,416	747
44	MT	2,685	51.64%	$354,230	748
45	RI	2,521	65.40%	$350,703	749
46	DC	2,123	70.84%	$491,161	760
47	ND	2,085	48.50%	$270,843	749
48	HI	2,022	68.46%	$569,913	748
49	AK	1,720	52.21%	$348,535	750
50	WY	1,670	44.44%	$310,590	750
51	VT	1,171	58.74%	$301,114	748

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 an affordable and sustainable loan option. A lower down payment dramatically decreases the number of years needed to save to transition from renting to homeownership. Here USMI looks at the scenario of putting 5% down instead of 20%, which better aligns with first-time homebuyers' average down payment of 6-7%.

While it could take 35 years for a household earning the national median income of $70,784[47] to save 20% (plus closing costs) for a $392,800 home,[48] the time drops 66% 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 more of their savings, which can significantly help borrowers who may experience unexpected costs such as home repairs or temporary interruption in income. 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 that borrowers receive mortgages that promote sustainable homeownership. Private MI's 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[49]).

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 66% 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	Median Sales Price for Single-Family Home	20% Down Payment		5% Down Payment	
			Years to Save	Total Cash Needed at Closing	Years to Save	Total Cash Needed at Closing
US	$70,784	$392,800	35	$90,344	12	$31,424
DC	$90,640	$1,171,000	83	$269,330	29	$93,680
HI	$82,199	$902,800	70	$207,644	24	$72,224
CA	$81,575	$782,050	61	$179,872	21	$62,564
MT	$64,999	$501,800	49	$115,414	17	$40,144
CO	$84,954	$618,550	47	$142,267	16	$49,484
NV	$64,340	$467,750	46	$107,583	16	$37,420
FL	$59,734	$422,100	45	$97,083	16	$33,768
WA	$87,648	$609,400	44	$140,162	15	$48,752
UT	$87,649	$588,900	43	$135,447	15	$47,112
MA	$86,566	$571,350	42	$131,411	15	$45,708
AZ	$70,821	$452,500	41	$104,075	14	$36,200
WV	$46,836	$302,200	41	$69,506	14	$24,176
OR	$81,855	$518,650	40	$119,290	14	$41,492
NM	$53,463	$337,000	40	$77,510	14	$26,960
SC	$62,542	$377,500	39	$86,825	13	$30,200
ID	$76,918	$475,400	39	$109,342	14	$38,032
GA	$61,497	$365,050	38	$83,962	13	$29,204
TN	$62,166	$371,400	38	$85,422	13	$29,712
RI	$74,982	$434,950	37	$100,039	13	$34,796
NC	$62,891	$356,700	36	$82,041	13	$28,536
NY	$72,920	$414,400	36	$95,312	13	$33,152
TX	$67,404	$354,050	34	$81,432	12	$28,324
MS	$46,637	$251,250	34	$57,788	12	$20,100
DE	$68,687	$361,650	34	$83,180	12	$28,932
VA	$80,268	$412,400	33	$94,852	11	$32,992
NJ	$88,559	$454,650	33	$104,570	11	$36,372
CT	$80,958	$405,350	32	$93,231	11	$32,428
MD	$97,332	$467,350	31	$107,491	11	$37,388
AR	$50,784	$243,200	31	$55,936	11	$19,456
NH	$88,841	$436,150	31	$100,315	11	$34,892
ME	$71,139	$340,700	31	$78,361	11	$27,256
VT	$76,079	$371,200	31	$85,376	11	$29,696
AL	$56,929	$271,700	30	$62,491	11	$21,736
AK	$81,133	$366,050	29	$84,192	10	$29,284
LA	$57,206	$250,700	28	$57,661	10	$20,056
KY	$55,629	$241,850	28	$55,626	10	$19,348
WY	$71,052	$316,588	28	$72,815	10	$25,327
MN	$80,441	$346,150	27	$79,615	10	$27,692
SD	$73,893	$304,450	26	$70,024	9	$24,356
PA	$72,627	$282,350	25	$64,941	9	$22,588
WI	$69,943	$276,100	25	$63,503	9	$22,088
OK	$60,096	$238,150	25	$54,775	9	$19,052
MO	$63,594	$241,550	24	$55,557	8	$19,324
OH	$62,689	$227,750	23	$52,383	8	$18,220
MI	$64,488	$232,900	23	$53,567	8	$18,632
ND	$68,882	$243,834	23	$56,082	8	$19,507
IN	$70,190	$240,250	22	$55,258	8	$19,220
KS	$75,979	$258,300	22	$59,409	8	$20,664
NE	$78,109	$268,600	22	$61,778	8	$21,488
IL	$79,253	$263,400	21	$60,582	7	$21,072
IA	$72,429	$216,700	19	$49,841	7	$17,336

MAKING HOMEOWNERSHIP ATTAINABLE ACROSS THE U.S.

For many potential first-time homebuyers, the combination of rising interest rates and a continued climb in housing prices has left them feeling that homeownership is becoming increasingly out of reach.

70% of Americans say young adults today have a harder time buying a home than their parents' generation. – Pew Research Center survey of U.S. adults

In fact, 70% of Americans say young adults today have a harder time buying a home than their parents' generation, according to Pew Research Center.[50] These findings come at a time when younger Americans are more likely than previous generations to have greater student loan debt and face an affordable housing crisis as rent and housing prices have grown markedly faster than incomes in the last decade.[51] Not only does this impact the ability to save for a down payment, but it also puts a strain on qualifying for a mortgage due to higher debt loads.

Saving 20% for a down payment is particularly tough for potential 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 "2022 Profile of Home Buyers and Sellers,"[52] the typical downpayment for first-time buyers was 6%, while the typical downpayment for repeat buyers was 17%. Additionally, the study found that 26% of first-time buyers said saving for a downpayment was the most difficult step in the process.

"The typical downpayment for first-time buyers was 6%, while the typical downpayment for repeat buyers was 17%." – NAR's "2022 Profile of Home Buyers and Sellers"

Though the affordability challenges may be mounting, low down payment mortgage options offer a pathway to achieve affordable and sustainable homeownership for first-time buyers. USMI's 2022 data shows that first-time homebuyers (nearly 62%) make up a significant segment of those securing conventional purchase loans backed by private MI.[53]

Nearly 62% of borrowers who secured conventional purchase loans with private MI were first-time homebuyers.
– GSE Aggregate Data

In 2017, the Urban Institute released a report that examined the industry's 60-year history of providing risk protection for low down payment loans, and the positive role private MI has served for homebuyers and the mortgage finance system overall.[54] The report's chartbook, which was updated in 2019, 2021 and will be updated in August 2023, notes the important role private MI plays in helping to ensure LMI and first-time homebuyers have access to the conventional market. The prior reports detail 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%. Urban's 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.[55]

> ***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 conventional mortgage financing sooner, and for many, 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.[56]

Two Ways to Remove Private MI[57]

OPTION 1	OPTION 2
A borrower with a good payment history may request cancellation of private MI when they have established 20% equity in the home. Cancellation may be subject to certain conditions, such as loan seasoning requirements and proof of the property's value.	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 private MI.

Home Loan Options with MI

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

	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 insures and protects lenders, GSEs, and taxpayers against credit losses.	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 automatically terminate when the mortgage loan-to-value reaches approximately 78%. A borrower can also initiate cancellation sooner at 80% LTV. If a borrower experiences financial hardships, private MI companies have strong financial incentives to help borrowers avoid foreclosure, often through loan modifications.	Unlike private MI, most FHA insurance premiums typically never cancel, and borrowers pay insurance premiums for the entire life of the loan. In addition to the annual insurance premiums, borrowers pay an Upfront Mortgage Insurance Premium equal to 1.75% of the loan that is typically financed into the mortgage loan amount.
Tax Treatment	Private MI premiums were tax deductible from 2007 to 2021. This deduction expired at the end of 2021 and Congress is considering legislation to renew the deduction.	FHA insurance premiums were tax deductible from 2007 to 2021. This deduction expired at the end of 2021 and Congress is considering legislation to renew the deduction.

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 and the taxpayers who stand behind them 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.

48%

Portion of newly insured mortgages that private MI protected in 2022.[58]

Over $1.5 Trillion

Amount in mortgages outstanding with private MI protection, including more than $1.3 trillion of mortgages backed by the GSEs, at the end of 2022.[59]

Nearly $60 Billion

Amount the private MI industry covered in claims for losses since the 2008 financial crisis.[60]

According to the Urban Institute, private MI is highly effective in reducing losses to the GSEs. An analysis finds that the presence of private MI reduces the losses the GSEs experience on loans made with low down payments (LTV ratios above 80%) to the same levels as the losses they experience on loans with large down payments (LTV ratios below 80%). This shows that private MI is highly effective in reducing losses to the GSEs.[61]

Urban analysis data from 1999 to 2022, found that 24% of 30-year fixed rate, full-documentation, fully amortizing GSE loans had private MI. During this time, the average private MI coverage was 25.2%, lowering the effective LTV of these loans to the GSEs to less than 80%. Compared with GSE loans without PMI, GSE loans with PMI are slightly smaller, are more heavily purchase loans, have higher LTV ratios, have lower FICO scores, and have higher DTI ratios.[62]

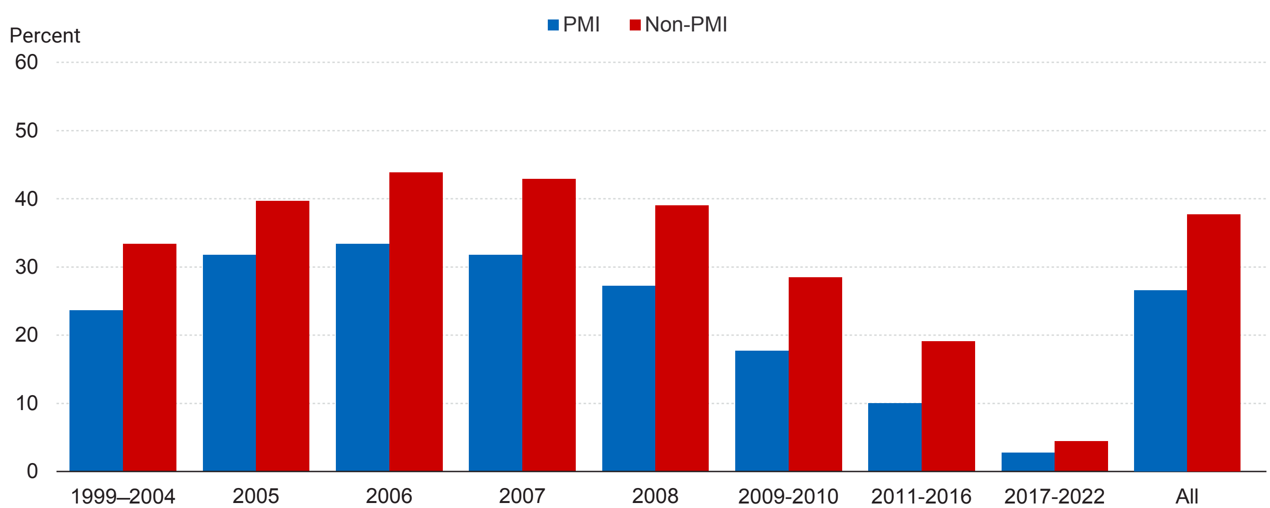
PRIVATE INSURED MORTGAGES EXPERIENCE SIGNIFICANTLY LOWER LOSS SEVERITIES AND REDUCE TAXPAYER RISK

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

> ***From 1999-2022, the Urban Institute's analysis found that the loss severity of GSE loans without PMI was 37.6%, higher than the 26.4% severity for loans with private MI.[63]***

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 1999-2022 origination period was 37.6%, which was higher than the 26.4% severity for GSE loans with private MI during the same time period.[64]

Loss Severity for GSE Loans With and Without PMI[65]



GSE = government-sponsored enterprise; PMI = private mortgage insurance. GSE credit data include 30-year fixed-rate, full-documentation, fully amortizing mortgage loans only. Fannie Mae data include loans originated from Q1 1999 through Q4 2022; performance data for these loans are also available through Q4 2022. Freddie Mac data include loans originated from Q1 1999 to Q3 2022; performance data for these loans are available through Q4 2022.

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 credit 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 and the industry has the capacity to play a broader and deeper role in the market going forward. Unlike most other forms of private capital in the housing finance system, private MI has been available during all economic cycles, including times of stress such as the COVID-19 pandemic.

EVOLUTION INTO SOPHISTICATED MANAGERS OF RISK

The private MI industry has evolved dramatically over the last 15 years, and it is better positioned today than ever to support home-ready families and provide private capital solutions to insulate lenders, the GSEs, and ultimately taxpayers from risk in the event of an economic downturn.

The private MI industry's ability to scale up for record volume during the pandemic demonstrates the industry's transformation since the 2008 financial crisis into sophisticated managers of mortgage credit risk. From 2015 through 2022, the private MI industry issued 51 insurance-linked notes through the capital markets, transferring more than $20.8 billion of risk exposure on nearly $2.2 trillion of notional mortgages and completed 42 quota-share and excess of loss reinsurance transactions, ceding $47 billion of additional risk to the traditional reinsurance market.[66] In total, nearly $68 billion of risk has been transferred to the global reinsurance and capital markets since 2015, providing the private MI industry additional capacity to support new borrowers.[67]

Nearly $68 billion of risk has been transferred since 2015, providing the private MI industry additional capacity to support new borrowers. – MI Companies' 2022 Annual Reports

The private MI industry transformed its business model through compliance with capital, risk, and operational standards in order to enhance its resiliency to withstand severe economic stress. The terms of private MI coverage, the regulatory framework governing the industry, its asset requirements and capital position, and its underwriting standards have all evolved, and the performance of the private MI industry through the COVID-19 pandemic underscores its role as a source of strength and stability in the housing finance system.

Over the past year, the private MI industry provided uninterrupted support to lenders and borrowers. Today, more than 5.7 million loans have active private MI coverage.[68] The private MI industry is safe and sound in part because it meets strict operational and capital requirements known as PMIERs, which were significantly revised in 2015 and are periodically updated by the GSEs and FHFA.[69]

As mentioned previously, the private MI industry held nearly $11 billion of eligible assets in excess of PMIERs capital requirements, which represented a 172% sufficiency ratio, at the end of 2022. What does that mean? It means that private mortgage insurers hold on average 72% more assets than their required regulatory threshold.[70]

Private MI companies collectively hold nearly $11 billion in excess of regulatory capital requirements. – MI Companies' 2022 Annual Reports

Also, private MI companies now utilize more granular and dynamic pricing models that allow them to better tailor solutions to the risk profile of an individual borrower. They have aligned their recission relief principles with the GSE representations and warranties framework to provide increased certainty of coverage, and they have updated policy terms to maximize clarity around coverage and servicing. Overall, the MI industry's core mission is to help families gain access to affordable mortgage credit and succeed as sustainable homeowners. All of the changes since 2008 have positioned the MI industry to meet the rising demand for homeownership while serving as a source of strength, stability, and support in the housing finance system.

In fact, there is no other GSE credit enhancement counterparty with capital and operational standards as robust as private mortgage insurers. These developments have helped private mortgage insurers further shield the GSEs and taxpayers from mortgage credit risk, while also expanding access to affordable mortgage financing for millions of American families.

TAX TREATMENT OF MI

From 2007 through 2021, millions of homeowners claimed the MI tax deduction, allowing them to save more of their hard-earned dollars.[71] The tax deduction for borrower-paid MI premiums has long enjoyed bipartisan, industry, and consumer advocate support but the deduction ended in 2021. USMI has consistently led a coalition of housing organizations to advocate for making the MI tax deduction permanent and expanding its eligibility.[72]

Data through tax year 2020 shows:[73]

$61.6 Billion

Total MI deductions claimed by homeowners

43.2 Million

Number of times the MI deduction has been claimed

3.3 Million

Average annual number of homeowners who claim the MI deduction

$1,427

Average annual MI deduction amount per qualified taxpayer

As affordability remains a persistent barrier to homeownership across the country, particularly for first-time homebuyers, the need for Congress to act is even more urgent today than when the deduction was first enacted. Low down payment mortgages, including conventional loans with private MI, have proven critical for millions of low- and moderate-income, first-time, and minority borrowers to sustainably buy a home sooner, secure financial stability, and build intergenerational wealth.

The table on the next page breaks down at the state level the number of households that claimed the MI tax deduction and the total amount of deductions claimed in 2020, according to the latest data available from the Internal Revenue Service.[74]

NUMBER OF HOUSEHOLDS THAT CLAIM MI TAX DEDUCTION IN 2020

(Table is organized in alphabetical order)

State	Number of Households that Claimed MI Deduction	Total Amount of Deductions Claimed
US	*1,392,660*	*$2,970,863,000*
AK	2,580	$6,030,000
AL	13,460	$23,697,000
AR	5,830	$9,226,000
AZ	33,370	$74,701,000
CA	186,190	$533,596,000
CO	37,320	$109,334,000
CT	23,600	$40,504,000
DC	3,610	$7,967,000
DE	7,000	$13,816,000
FL	91,210	$218,319,000
GA	69,850	$124,982,000
HI	5,250	$20,726,000
IA	7,020	$10,068,000
ID	7,310	$15,375,000
IL	59,540	$93,589,000
IN	15,520	$28,743,000
KS	6,470	$10,105,000
KY	11,280	$17,892,000
LA	13,440	$25,375,000
MA	34,030	$73,359,000
MD	74,340	$161,596,000
ME	4,530	$7,765,000
MI	29,130	$42,154,000
MN	30,310	$48,102,000
MO	16,970	$29,399,000

State	Number of Households that Claimed MI Deduction	Total Amount of Deductions Claimed
MS	8,640	$14,815,000
MT	4,400	$8,423,000
NC	34,810	$62,598,000
ND	1,290	$2,731,000
NE	5,010	$7,186,000
NH	6,690	$13,637,000
NJ	55,030	$112,593,000
NM	6,840	$13,828,000
NV	17,680	$44,222,000
NY	63,190	$139,842,000
OH	27,400	$42,298,000
OK	9,040	$15,656,000
OR	28,550	$60,756,000
PA	44,260	$73,230,000
RI	7,650	$16,093,000
SC	19,710	$36,939,000
SD	1,200	$2,064,000
TN	16,120	$34,799,000
TX	111,450	$224,997,000
UT	21,330	$47,776,000
VA	51,890	$118,974,000
VT	1,920	$3,044,000
WA	36,260	$92,455,000
WI	18,880	$25,322,000
WV	2,430	$5,176,000
WY	1,270	$3,048,000

CONCLUSION

For 66 years, private MI has consistently helped first-time, minority, and LMI borrowers achieve the American dream of owning a home.

Private MI 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, absorbing credit risk and default-related 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 access affordable home financing in the conventional mortgage market, 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.

ENDNOTES

[1] Calculated based on median household income in 2021 (latest data available from the U.S. Census Bureau); median sales price for a single-family home in 2022, according to NAR; median savings rate in 2022, according to data from the Federal Reserve.
[2] USMI Member Company Data and GSE Aggregate Data.
[3] GSE Aggregate Data.
[4] GSE Aggregate Data.
[5] HMDA Data.
[6] MI Company 2022 Annual Reports.
[7] MI Company 2022 Annual Reports.
[8] GSE Aggregate Data.
[9] Private mortgage insurers 2022 annual reports.
[10] Private mortgage insurers 2022 annual reports.
[11] USMI Member Company Data and GSE Aggregate Data.
[12] National Association of REALTORS® and Morning Consult study, "2022 Obstacles to Home Buying" (April 12, 2022)
[13] USMI, "2021 National Homeownership Market Survey" (June 2021).
[14] Begley, Jacelen; Palim, Mark. Fannie Mae, Economic and Strategic Research Group, Mortgage costs as a share of housing costs—placing the cost of credit in broader context (March 9, 2022).
[15] USMI letter, "USMI Calls for Senate Finance Committee to Co-Sponsor the Middle Class Mortgage Insurance Premium Act of 2022" (March 14, 2022).
[16] USMI joint letter with the American Bankers Association (ABA), Mortgage Bankers Association (MBA), National Association of Home Builders (NAHB), National Association of REALTORS® (NAR), and National Housing Conference (NHC) to the U.S. House of Representatives Committee on Ways and Means Committee (November 17, 2022).
[17] USMI joint letter with the ABA, MBA, NAHB, NAR, and NHC to the U.S. Committee on Finance (November 17, 2022).
[18] USMI comment letter on the FHFA's draft Strategic Plan for Fiscal Years 2022-2026 (March 11, 2022).
[19] FHFA's proposed "Strategic Plan for Fiscal Years 2022-2026" (February 2022).
[20] USMI statement, "FHFA's Release of Fannie Mae and Freddie Mac's "Equitable Housing Finance Plans for 2022-2024" (June 9, 20220).
[21] FHFA press release, "FHFA Announces Equitable Housing Finance Plans for Fannie Mae and Freddie Mac" (June 8, 2022).
[22] USMI statement, "FHFA's Announcements Regarding GSE Pricing, Credit Scores and Appraisal Data" (October 25, 2022).
[23] FHFA press release, "FHFA Announces Targeted Pricing Changes to Enterprise Pricing Framework" (October 24, 2022).
[24] Private mortgage insurers 2022 annual reports.
[25] Private mortgage insurers 2022 annual reports.
[26] USMI Member Company Data and GSE Aggregate Data.
[27] GSE Aggregate Data.
[28] HMDA Data.
[29] GSE Aggregate Data.
[30] USMI, "2021 National Homeownership Market Survey" (June 2021).
[31] Freddie Mac Primary Mortgage Market Survey® (January-December 2022).
[32] NAR press release, "NAR Finds Share of First-Time Home Buyers Smaller, Older Than Ever Before," on release of its "2022 Profile of Home Buyers and Sellers" (November 3, 2022)
[33] Khater, Sam; Freddie Mac perspective, "First-Time Homebuyers are Driving the Market Forward" (May 3, 2022).
[34] USMI, 2021 National Homeownership Market Survey (June 2021).
[35] National Association of REALTORS®, Tackling Home Financing and Down Payment Misconceptions (January 7, 2022).
[36] Calculated based on median household income in 2021 (latest data available from the U.S. Census Bureau); median sales price for a single-family home in 2022, according to NAR; median savings rate in 2022, according to data from the Federal Reserve.
[37] U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements, HINC-02 (2021).

ENDNOTES

[38] NAR's National Median Home Price for a Single-family Home Calculated Based on Quarterly Reports of the "Metropolitan Median Home Prices and Affordability Index" (2022).
[39] U.S. Bureau of Labor Statistics, Occupational Employment Statistics (May 2022).
[40] U.S. Census Bureau, Historical Income Tables, Table H-6 (2021).
[41] Calculated based on data NAR, Redfin Analysis of MLS Data for Single-Family Residences, Zillow Monthly Median Home Value for Single-Family Homes, the U.S. Federal Reserve, and the U.S. Census Bureau.
[42] USMI Member Company Data and GSE Aggregate Data.
[43] GSE Aggregate Data.
[44] USMI Member Company Data.
[45] GSE Aggregate Data.
[46] GSE Aggregate Data.
[47] U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements, HINC-02 (2021).
[48] NAR, National Median Home Price for a Single-family Home Calculated Based on Quarterly Reports of the "Metropolitan Median Home Prices and Affordability Index" (2022).
[49] NAR (2022).
[50] Pew Research Center survey of U.S. adults (October 18-24, 2021)
[51] Delgado, Michelle; Real Estate Witch, "U.S. House Prices Are Rising Exponentially Faster Than Income" (2021 Data)
[52] NAR, "2022 Profile of Home Buyers and Sellers" (November 2022).
[53] GSE Aggregate Data.
[54] Goodman, Laurie; and Karan Kaul: "Mortgage Insurance Data At A Glance – 2021," Urban Institute (July 1, 2017).
[55] Urban Institute's calculations based on data from Fannie Mae, Freddie Mac, Ginnie Mae, and MI Companies.
[56] USMI Member Companies.
[57] Consumer Financial Protection Bureau (CFPB): When can I remove private mortgage insurance (PMI) from my loan? (September 13, 2017).
[58] Inside Mortgage Finance, Primary Mortgage Insurance Activity.
[59] MI Company 2022 Annual Reports and Inside Mortgage Finance, Total Private MI New Insurance Written.
[60] GSE statutory filings and MI Company filings.
[61] Urban Institute's calculations based on data from Fannie Mae and Freddie Mac.
[62] Urban Institute's calculations based on data from Fannie Mae and Freddie Mac.
[63] Urban Institute's calculations based on data from Fannie Mae and Freddie Mac.
[64] Urban Institute's calculations based on data from Fannie Mae and Freddie Mac.
[65] Urban Institute's calculations based on data from Fannie Mae and Freddie Mac.
[66] MI Companies' 2022 Annual Reports.
[67] MI Companies' 2022 Annual Reports.
[68] GSE Aggregate Data.
[69] Fannie Mae PMIERs, https://singlefamily.fanniemae.com/media/23266/display (April 4, 2020); Freddie Mac PMIERs, https://sf.freddiemac.com/content/_assets/resources/pdf/requirements/freddie-mac-pmiers-guidance-2020-01.pdf (April 4, 2020).
[70] MI Companies' 2022 Annual Reports.
[71] Internal Revenue Service data from 2007 to 2020.
[72] USMI joint letter with the American Bankers Association (ABA), Mortgage Bankers Association (MBA), National Association of Home Builders (NAHB), National Association of REALTORS® (NAR), and National Housing Conference (NHC) to the U.S. House of Representatives Committee on Ways and Means Committee (November 17, 2022).
[73] Internal Revenue Service data from 2007 to 2020.
[74] Internal Revenue Service data from 2020.

USMI

U.S. MORTGAGE INSURERS