

### **PRIVATE MORTGAGE INSURANCE:** Promoting Homeownership for North Dakota Families

Private mortgage insurance (MI) is typically required by mortgage lenders to approve homebuyers who have down payments less than 20% of the purchase price. For 67 years, private MI has been an important component in the U.S. housing finance system, helping borrowers in North Dakota and across the country to access home financing while protecting lenders and taxpayers.

By design, private MI is a proven, reliable method for shielding the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, as well as American taxpayers, from losses on mortgage credit risk. Private MI companies paid nearly **\$60 billion**<sup>1</sup> in claims since the 2008 financial crisis and housing market downturn, absorbing losses that the government and taxpayers would have otherwise incurred.

#### Down Payment is One of the Biggest Hurdles to Homeownership

A 20% down payment is out of reach for many families and could sideline them from homeownership for years. For example, it could take 27<sup>2</sup> years for a household earning the national median income of \$74,580<sup>3</sup> to save 20%, plus closing costs, for a \$394,100<sup>4</sup> home (national median sales price).

In North Dakota, the median income is \$78,720<sup>5</sup> and the median sales prices for a single-family home is \$264,800.<sup>6</sup> Using this same analysis, it would take 17<sup>7</sup> years for a state resident to save 20%, plus closing costs (3% of the total sales price on average).<sup>8</sup>

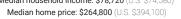
#### PRIVATE MI HELPS BORROWERS AFFORD A HOME SOONER

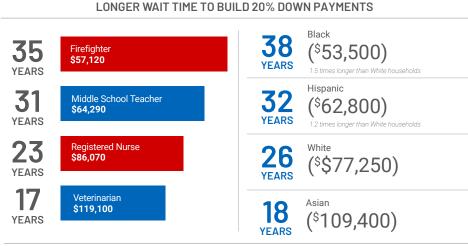
Private MI not only helps borrowers overcome the biggest hurdle to homeownership but acts as a second set of eyes with independent credit underwriting standards. It aligns the interests of borrowers, lenders, and investors.

\$60,904 (17 Years to Save) 20% Down Payment without private MI, plus closing costs

(U.S. \$90,643)







Dollar amounts by race/ethnicity<sup>9</sup> and occupation<sup>10</sup> represent median income.

Who is Borrowing in North Dakota

AVG. Credit Score<sup>11</sup> (U.S. 715)

\$78,720 Median Household Income<sup>12</sup> (U.S. \$74,580)



#### Borrowers with Private MI in North Dakota

~35<sup>%</sup>

21,184

(6 Years to Save)

5% Down Payment with private

MI, plus closing costs

Borrowers with Incomes Less than \$75,000<sup>15</sup>

1,360

Homeowners Helped in 2023<sup>16</sup> (U.S. ~800,000)



Avg. Loan Amount Purchased/Refinanced with private MI<sup>17</sup> (U.S. \$346,817)

**55**<sup>%</sup>

First-Time Homebuyers<sup>18</sup> (U.S. 64%)

752

Average FICO Credit Score<sup>19</sup> (U.S. 749)

www.usmi.org

# **39 MILLION**

#### Private MI Helps Borrowers Bridge the Down Payment Gap

By helping borrowers qualify for a mortgage with a down payment as low as 3%, private MI has given nearly 39 million families nationally the opportunity to purchase a home sooner for 67 years.<sup>20</sup>

#### **Private MI Protects Taxpayers**

Private MI is a first level of credit protection against the risk of loss on a mortgage in the event a borrower is not able to repay the loan and there is not sufficient equity in the home to cover the amount owed. 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% of the home value, private MI – not taxpayers – covers the first losses if there is a default, up to certain coverage limits.



Amount private MI industry covered in claims for losses<sup>21</sup> 48%

Insured market originations that private MI protected in 2023<sup>22</sup>

## <sup>\$</sup>1.6 Trillion

Amount in mortgages currently outstanding with private MI protection<sup>23</sup>

#### **Private MI is Temporary**

Unlike FHA and other government mortgage insurance, which typically cannot be cancelled, private MI paid for by the borrower can be cancelled, leading to potential savings over the life of their loan. Private MI can be cancelled in two ways:<sup>24</sup>

A borrower may request cancellation of private MI when he/she has established 20% equity in the home. Cancellation is subject to certain conditions, such as 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 terminates private MI.

<sup>15</sup> HMDA Data.

<sup>16</sup> GSE Aggregate Data.

<sup>17</sup> GSE Aggregate Data.

<sup>18</sup> GSE Aggregate Data.

<sup>19</sup> GSE Aggregate Data.

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#### **Tax Treatment of MI**

For tax years 2007-2021, millions of homeowners claimed the federal tax deduction for borrower-paid MI premiums, allowing them to save more of their hard-earned dollars. USMI has consistently led a coalition of housing organizations to advocate for making the MI tax deduction permanent and expanding its eligibility. Data through tax year 2021 shows:<sup>25</sup>



**Total MI deductions** claimed by homeowners



Number of times the MI deduction has been claimed **3.4 Million** 

Average annual number of homeowners who claim the MI deduction

<sup>\$</sup>1,454

Average annual MI deduction amount per qualified taxpayer

- GSE Statutory Filings and MI Company Annual Reports.
- Calculated based on median household income in 2022 (latest data available from the U.S. Census Bureau); median sales price for a single-family home in 2023, according to National Association of REALTORS®; median savings rate in 2023, according to data from the Federal Reserve.
- U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements (Table H-8).

National Association of **REALTORS®** 

- U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements (Table H-8).
- <sup>6</sup> Redfin Analysis of MLS Data for Single-Family Residences.
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  - U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements (Table H-8)
- <sup>10</sup> U.S. Census Bureau, Historical Income Tables (Table H-9) U.S. Department of Labor. Bureau of Labor Statistics. Occupational Employment & Wages (May 2023).
- <sup>11</sup> Experian data from January to December 2023.
- 12 U.S. Census Bureau Current Population Survey, Annual Social and Economic Supplements (Table H-8)
- 13 Redfin Analysis of MLS Data for Single-Family Residences.
- 14 National Association of **REALTORS®**

- 23 MI Company Annual Reports
- 24 Consumer Financial Protection
- Bureau <sup>20</sup> USMI Member Company and <sup>25</sup> Internal Revenue
- Service. <sup>21</sup> GSE Statutory Filings and MI
- Company Annual Reports. <sup>22</sup> MI Company Annual Reports, VA Monthly Volume Reports, and FHA Single Family Market Share Reports.