

The Complementary Roles of Private MI and FHA

At a recent Congressional hearing, Rohit Gupta, CEO of Genworth Mortgage Insurance and Chairman, U.S. Mortgage Insurers, made the following observations about the complementary roles of private MI and FHA:

- “FHA and private MIs can and should serve as complementary forces that enable the FHA to remain focused on it[‘s] goal of serving underserved communities, especially the communities that [the] private sector is not suited to reach. But for this model to work, it is critical that FHA not...stray too far from that mission. The recent decision to lower annual insurance premium at FHA, for example, ha[s] two immediate consequences. First, it slows the path of FHA to reach its 2 percent minimum capital requirement. Second, it limits the ability of private mortgage insurance companies to serve the market. Both these actions will increase exposure of taxpayers to housing risk. And both are directly in contrast to FHA's own stated goal of bringing more capital into the housing market.”
- “Like all of the housing finance market, our industry faced unprecedented challenges in the recent housing crisis. But [USMI] member companies never stopped paying claims, and we never received any bailout money from the Federal government. Since the GSEs went into conservatorship, our industry has covered \$51 billion in claims. Let me repeat that. Our industry has covered \$51 billion in claims, out of which \$44 billion went to GSEs alone; claims that otherwise would have been on the shoulders of taxpayers.”
- “I think this is definitely one of the discrepancies in the housing finance system right now; that every sector of mortgage finance actually has higher capital right now than they did before this cycle. Whether you're talking about banks, whether you're talking about mortgage service[r]s, mortgage insurance companies, every single sector actually has increase capital requirements in the last six years, except for FHA.”
- “As GSE eligibility guidelines get finalized, the perception of the [MI] industry having strong capital and being a strong counterparty significantly improves across all sectors. And the possibly of either GSEs or the FHA doing more risk-shares with private mortgage [insurers] actually also gets higher.”
- “So the math is very simple. When you lower your premiums by 40 percent, you actually need a volume increase of something larger than 40 percent to get back to revenue neutral itself. And I do not believe that FHA thinks about getting their market share higher by 40 percent.”

Source: CQ Congressional Transcripts, Hearing of the House Financial Services Housing and Insurance Subcommittee, February 26, 2015