Housing Policy Debate ›
Volume 30, 2020 - Issue 2

Articles

Choice, Capital, and Competition: Private Mortgage Insurance Application and Availability

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Pages 137-163 | Received 20 Aug 2018, Accepted 15 Jul 2019, Published online: 14 Oct 2019

Cite this article https://doi.org/10.1080/10511482.2019.1645036 Check for updates

ABSTRACT

The fina ... of mortgage
credit to ... insurance
offered t...
Administ... base of
mortgag... and federal
competi... es while
acco... insurers
becau... e Great
Recessio... ng
Administ... . These
findings ... arket,
including ... ousing crisis.

mortgages insurance Federal Housing Administration financial institutions and industry

Acknowledgments

The opinions expressed are those of the author, and do not necessarily reflect the policies of the Department of Housing and Urban Development or the Administration. I would like to thank Todd BenDor, Daniel Immergluck, Joshua Miller, Roberto Quercia, William Reeder, Carolina Reid, William Rohe, and Kurt Usowski for providing constructive criticism and suggestions.

Disclosure Statement

No potential conflict of interest was reported by the author.

Supplementary Material

Supplem

https://d

Notes

1. The D workers since with the Farm 71-81, July 15, 1949

2. Congr on under the Federal nventional mortgag 958, S. 4035, 85

3. FHA typically provides coverage for the full loan amount instead of the partial coverage common among PMI companies. The first actuarial review of the Mutual Mortgage Insurance Fund notes, “[T]he difference between the 20% per loan risk taken by MICs versus the 100% per loan risk taken by FHA also renders use of the [PMI companies’] 4% capital-to-risk requirement less meaningful to FHA” (Price Waterhouse, 1990, p. 9). The Rural Housing Service guarantees 90% of the loan amount, whereas the VA guarantees up to 50%, depending on the loan amount.

4. Extraordinary dividends are generally defined as distributions that, combined with any other distributions made within the previous year, exceed 10% of the insurer’s statutory surplus or the statutory net income during the previous calendar year.

5. Four of the mortgage insurers settled with CFPB, agreeing to pay $15 million in civil penalties. In addition, the settlement requires the insurers not to enter any new captive reinsurance arrangements without the approval of CFPB for a period of 10 years.

6. As Veblen (1904) notes, “[S]ince an advance of credit rests on collateral as expressed in terms of value, an enhanced value of the property affords a basis for a further extension of credit, and so on.... This cumulative extension of credit through the enhancement of prices goes on, if otherwise undisturbed, so long as no adverse price phenomenon obtrudes itself with sufficient force to convict this cumulative enhancement of capitalized values of imbecility.”

7. I use t … ce of
Manage …

8. The m … 5 days, with
an avera … The median
for FHA- … s and less
than 30 …

9. Wit … 1996, p. 40)
estimate … outcome
and find … ata provide
“little ev … borrower,
choice.” …

10. In a … subsamples
of loan applications to use census tract fixed effects. I created a 10% national sample, a

sample of bubble housing markets, and a sample of rust belt housing markets. The results are qualitatively similar to those presented here.

11. I also tested using the price index for very high- and medium-risk products, but found high-risk price had the strongest impact on selection of PMI.

12. Imputation is used for nine of the 24 quarters for Republic and six of the 22 quarters for CMG. All imputed capital ratios were for mid-year quarters before 2009. Further, because CMG was owned by PMI, when PMI went into runoff mode it stopped reporting not only its own capital ratios but CMG's as well, even though CMG continued to endorse new loans. I do not extrapolate CMG's capital ratios beyond that last observed figure (2011Q2).

13. The conforming loan limits themselves were similarly changed by ESA and Housing and Economic Recovery Act (HERA); however, the conforming loan limits under ESA were allowed to expire at the end of September 2011, creating a period of 27 months in which the FHA limit exceeded the conforming limit in some high cost areas.

14. For more information, see https://www.consumerfinance.gov/policy-compliance/guidance/implementation-guidance/hmda-implementation/

15. The average marginal effect is the average of the differences in estimated probabili … tory variable (as oppo …

16. As a … between year and … coefficients are show … lthough the magnitu … tistically significa … not stati …

17. Appe … and year. The effe … MI company capital r … y fixed effects a … d of denial between … er 2009. However … han across years, which may inhibit robust estimation of their effects.

Additional information

Notes on contributors

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