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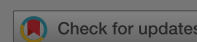
Articles

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

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## ABSTRACT

The financial crisis of 2007-2009 led to a sharp decline in mortgage credit to households, particularly in the subprime market. This article examines the impact of mortgage insurance (MI) on mortgage credit availability and competition. It analyzes the role of MI in the mortgage market, particularly in the context of the financial crisis and the subsequent recovery. The article discusses the challenges faced by private mortgage insurers (PMIs) and the impact of regulatory changes on the industry. It also explores the potential for public-private partnerships to address the challenges of mortgage credit availability and competition.

KEYWORDS

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## 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://doi.org/10.1016/j.jmb.2020.105400>

## Notes

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|--|--|--|
| 1. The D<br>since<br>Farm<br>15, 1949      |  | workers<br>with the<br>71-81, July     |
| 2. Congr<br>Federal<br>mortgag<br>4035, 85 |  | on under the<br>nventional<br>.958, S. |

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 the term “managerial” to refer to the role of the manager in the firm, as opposed to the role of the owner. The manager is responsible for the day-to-day operations of the firm, while the owner is responsible for the long-term strategy and direction of the firm. The manager is typically a professional who is trained in business management, while the owner is typically an individual who has invested capital in the firm. The manager is responsible for the day-to-day operations of the firm, while the owner is responsible for the long-term strategy and direction of the firm. The manager is typically a professional who is trained in business management, while the owner is typically an individual who has invested capital in the firm.
8. The median time to process a loan application is 5 days, with an average of 6 days. The median time to process a loan application for FHA-insured loans is 10 days, with an average of 12 days. The median time to process a loan application for VA-insured loans is 15 days, with an average of 18 days. The median time to process a loan application for private-label insured loans is 20 days, with an average of 25 days.
9. With the exception of the outcome variable, the data provide “little evidence” that the borrower’s choice of lender is a rational choice.”
10. In a series of subsamples of loan applications to use census tract fixed effects. I created a 10% national sample, a



17. Appendix 17.1: The effects of capital requirements on the effects of denial between 2009 and 2019. However, the effects of denial on capital requirements may be different across years, which may inhibit robust estimation of their effects.

# Additional information

## Notes on contributors

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Dr. Kevin A. Park is an economist in the Housing Finance Analysis Division of the U.S. Department of Housing and Urban Development. He received his doctorate in City and Regional Planning from the University of North Carolina at Chapel Hill and this work was part of his doctoral dissertation.

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