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Articles

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

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ABSTRACT

The financial health of the mortgage insurance industry is vital for the flow of mortgage credit to low-wealth borrowers. Private mortgage insurance competes with insurance offered through the federal government, particularly the Federal Housing Administration. This article employs a Heckman selection model and a database of mortgag ... and federal competi ... es while accounti ... insurers becam ... e Great Rece ... ng Administ ... . These findings ... arket, including ... ousing crisis.

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KEYWORDS: mortgages insurance Federal Housing Administration financial institutions and industry

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Disclosure Statement

No potential conflict of interest was reported by the author.

Supplementary Material

Supplemental data for this article can be accessed at: https://doi.org/10.1080/10511482.2019.1645036.

Notes

1. The Department of Agriculture had provided home loans directly to farm workers since the Bankhead-Jones Farm Tenant Act (Pub. L. 75-210, July 22, 1937), with the Farmers ... 71-81, July 15, 1949 ...

2. Co... on under the Fede... nventional mortgag... 958, S. 4035, 85...

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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 definition of metropolitan statistical areas published by the Office of Management and Budget in November 2004.

8. The median length of time between application and action for PMI was 26 days, with an average of 48.5 days. Less than 9% of applications exceeded 180 days. The median for FHA-insured loan applications was 40 days, with an average of 53.7 days and less than 3%

9. Withd … 1996, p. 40)
estimate … outcome
and f … ata provide
“little … borrower,
choice.”

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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 probabilities for each observation because of a 1-unit change in an explanatory variable (as opposed to, for example, the marginal effect at the sample means).

16. As a robustness check, I separately estimate models with an interaction between year and each of the three key selection equation variables. The estimated coefficients are shown in the appendix (see Figure A1) with 95% confidence intervals. Although the magnitudes of the effects are smaller later in the study period, they are statistically significant in almost every year. The one exception is that the FHA AMIP is not statistica

17. Appe and year.
The eff MI company
capi y fixed
effects a d of denial
between er 2009.
Howeve an across
years, which may inhibit robust estimation of their effects.

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