

MINUTES OF THE HOUSE COMMITTEE ON INSURANCE.

The meeting was called to order by Chairperson Rep. Robert Tomlinson at 3:34 p.m. on March 2, 2000 in Room 527-S of the Capitol.

All members were present except: Representative Cindy Empson
Representative Bob Grant
Dr. Bill Wolff, Research

Committee staff present: Ken Wilke, Revisor
Mary Best, Secretary

Conferees appearing before the committee: Mr. Bill Sneed, Mortgage Guaranty Insurance Corporation
Kathleen Sebelius, Commissioner, Kansas Insurance Dept.

Others attending: See attached Committee Guest List

Immediately after the committee announcements Chairman Tomlinson called for approval of the Minutes for February 25, 27. Representative Cox moved to accept the Minutes. The motion was seconded by Representative Vining. A vote of the committee members was taken and the motion passed.

SB 444- Insurance; mortgage guaranty insurance companies; concerning authorized real estate security

The Chair then proceeded to recognize Mr. Bill Sneed, Mortgage Guaranty Insurance Corporation. Mr. Sneed gave Proponent Testimony and the overview of the bill. A copy of the bill is (Attachment #1) attached hereto and incorporated within the Minutes by reference. Mr. Sneed informed the committee, the purpose of the bill is "to permit the mortgage insurers to insure mortgage loans up to 100% of the value of the underlying property." This increase from 97% to 100% will assist the citizens who are credit able to purchase a home when they lack the down payment for a home.

Mr. Sneed explained to the committee, the MI companies have in the past provided coverage to lenders and financial institutions thus insuring them against financial loss when a borrower defaults on their mortgage loan. Mortgage Insurance is usually required of the borrower when the down payment is less than 20% of the down payment or no down payment. As of this date, K.S.A.40-3502(c) limits the maximum ratio of principal balance of a loan value of property that an MI can insure at 97% and before this they were at 95%.

Interest has grown by those in the industry to raise the limit from 97% to 100% so that new and growing groups of potential new home buyers, including immigrants who have not been able to save a good down payment and closing costs. "Mortgage markets are beginning to develop and originate loans with an LTV in excess of 97%. Of course, the Federal House Administration ("FHA") has been offering its guaranty on 100% LTV loans for a number of years, and lenders can make such loans without any type of mortgage insurance if they are willing to retain the risk."

Allowing these changes mortgage companies will be able to expand their insured loans, and LTV would be able to expand mortgage markets to underserved groups; provide additional options to both the lender and borrower and allow mortgage insurers to compete with governmental programs. Summarizing his testimony, Mr. Sneed stood for questions.

Questions from the committee were from: Representative Myers, Kirk, Boston, Vining, Cox, and Chairman Tomlinson.

Questions ranged from: cost differences in the increase, how much more will be paid out for losses, why would someone purchase 100% of something, fair market value and homes already too expensive for some folks. Having responded to the questions including there would be minimal increases, the committee rested.

The next conferee before the committee was Ms. Linda DeCoursey, Kansas Insurance Department. Ms. DeCoursey offered Proponent Testimony to the committee. A copy of the testimony is (Attachment #2) attached hereto and incorporated into the Minutes by reference. Ms. DeCoursey informed the committee of the support of the Insurance Department and the Insurance Commissioner. Ms. DeCoursey also added more examples of the dilemma. She also stated the low percent down payment may make the ownership of a home easier, but the mortgage premium and total monthly payment will be higher. The committee was also reminded the committee that thirty-seven other states already have a similar bill. Ms. DeCoursey went on to state, "The mortgage insurance industry was developed to act as partners with lenders seeking ways to offer customers more flexible borrowing terms. In 1994, a similar amendment to this one was made to amend the amount from 95% to 97%. The Insurance Department regulates these entities and sees no reason to limit their participation in the marketplace." With this Ms. DeCoursey stood for questions from the committee on the bill.

Questions came from Representatives Myers, Boston, and Burroughs. Questions-covered V.A. Loans, and other similar bills. With this, the Chairman asked for further discussion from the committee or guest. As there was none offered, public discussions on SB 444 were closed.

It was brought to the committees attention that there were two pieces of Proponent Testimony included for them to read. Mr. Matthew Goddard, Heartland Community Bankers Association, and Ms. Kathleen Taylor Olsen, Kansas Bankers Association. A copy of their testimonies are (Attachments #3 & 4) are attached hereto and incorporated into the Minutes by reference.

The meeting was adjourned at 4:15 p.m.

The next meeting will be held March 7, 2000 at 3:30 p.m.



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WHITE
VARDEMAN &
SHALTON

Memorandum

TO: The Honorable Bob Tomlinson, Chairman
House Insurance Committee

FROM: William W. Sneed, Legislative Counsel
Mortgage Guaranty Insurance Corporation

RE: S.B. 444

DATE: March 2, 2000

Mr. Chairman, Members of the Committee: My name is Bill Sneed and I represent Mortgage Guaranty Insurance Corporation and its national trade association, Mortgage Insurance Companies of America ("MICA"). We requested the introduction of S.B. 444, and the Senate passed the bill 40-0. We respectfully request your favorable action on this bill.

In a nutshell, S.B. 444 would amend K.S.A. 40-3502(c) to permit mortgage guaranty insurers ("MI's") to insure mortgage loans up to 100% of the value of the underlying property. Currently K.S.A. 40-3502(c) limits MI's from insuring loans over in excess of 97%. Allowing the percentage to be raised to 100%, which most states have already done, will assist Kansas citizens in the purchase of a home who are creditworthy but may lack the savings necessary for a down payment.

MICA is a national trade association that represents all seven private MI companies, each of which is licensed to transact mortgage guaranty insurance in Kansas and

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throughout the United States.¹ Mortgage Guaranty Insurance Corporation (“MGIC”) is a member of MICA, which has been licensed in Kansas since 1985. Since 1957, when MGIC’s predecessor began to insure residential mortgage loans, MI companies have provided coverage to lenders and other financial institutions, insuring them against financial loss resulting from a borrower’s default on a residential mortgage loan. Lenders generally require MI when a borrower makes less than a 20 percent down payment on the purchase price for a home and enables homebuyers to purchase homes with little or no down payment. In effect, the MI company shares the risk of foreclosure with the lender. In addition, the lender and the MI company share a common interest in the mortgage loan, since each stands to lose in the event of a borrower default.

K.S.A. 40-3502(c) currently limits the maximum ratio of principal balance of a loan to the value of property that an MI can insure at 97%. Prior to 1994, MI’s were limited to insuring loans with an LTV not in excess of 95%. The Kansas legislature changed the LTV limit to 97% in 1994. This change made a home purchase available to thousands of qualified homebuyers who otherwise would not have been able to purchase a home. The MI industry is proud of its role in introducing 97% financing to Kansas and throughout the nation in recent years and helping to bring home ownership levels to historically high levels.

Since the 1994 revision, there has been an increasing interest among lenders, realtors, and others for increasing the 97% LTV limit to 100% in order to serve new and growing groups of potential home buyers, including immigrants, who can support their mortgage payments with good credit histories and adequate and stable income but who have not yet saved sufficient funds for their down payment and closing costs. This underserved market has grown

¹ The MICO members are: General Electric Mortgage Insurance Corporation, Mortgage Guaranty Insurance Corporation, PMI Mortgage Insurance Co., Radian Guaranty Inc, Republic Mortgage Insurance Company, Triad Guaranty Insurance Corporation, and United Guaranty Residential Insurance Company.

as home prices have increased in the current strong market. Consequently, the MI industry has been asked by lenders, realtors, and others to consider expanding the market again, as in 1994, by insuring loans with principal balances up to 100% LTV. We believe the MI companies can prudently and safely provide insurance on 100% LTV's in much the same manner that they have managed their 97% LTV loans since their introduction in 1994.

The mortgage markets are beginning to develop and originate loans with an LTV in excess of 97%. Of course, the Federal House Administration ("FHA") has been offering its guaranty on 100% LTV loans for a number of years, and lenders can make such loans without any type of mortgage insurance if they are willing to retain the risk.

The volume of loans with 100% LTV's is not likely to be a large percentage of the mortgage insurance business given the higher premium rates and stricter underwriting standards that would apply to them. However, as in the case of 97% LTV loans, allowing mortgage insurers to insure loans up to 100% LTV would expand mortgage markets to underserved groups of home buyers, provide additional options to lenders and borrowers, and allow mortgage insurers to compete with government programs, such as the FHA.

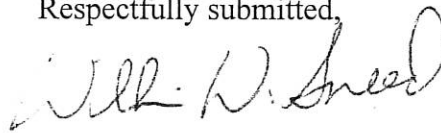
In summary, we believe that increasing the maximum LTV for mortgage guaranty insurance to 100% is justified for the following reasons:

- the interest from lenders in servicing new, underserved markets, particularly immigrants and other first-time home buyers who may not have saved sufficient funds from a down payment, but who can support their mortgage payment with adequate and stable income;
- the mortgage insurance industry's experience with 97% LTV loans, which has been acceptable, and for which increased risk has been balanced by appropriate premiums and underwriting standards;
- the interest of the mortgage insurance industry in expanding its markets and opportunities to serve the home buying public, in a prudent and safe manner, and to compete with government programs which guarantee loans in excess of 97% LTV;

- the successful experience of the mortgage insurance industry in applying new risk management and underwriting techniques to loans and real estate markets during the 1990s, and
- the substantial capital position and improved financial position which the mortgage insurance industry has attained during the last decade.

We appreciate the opportunity to present our testimony to the Committee. We respectfully request this Committee's favorable action on S.B. 444. If you have any additional questions or comments, please feel free to contact me.

Respectfully submitted,



William W. Sneed

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Kathleen Sebelius
Commissioner of Insurance
Kansas Insurance Department

TO: House Committee on Insurance

FROM: Linda J. De Coursey, Director of Government Affairs

RE: SB 444 – Relating to mortgage guaranty insurance companies

DATE: March 2, 2000

Mr. Chairman and members of the committee:

Thank you for the opportunity to discuss SB 444 with you. Currently the law limits a mortgage guaranty company from issuing coverage on a mortgage loan for more than 97 percent of the value of real estate. SB 444 would change the law to allow mortgage guaranty insurers to offer coverage up to 100% of the value of real estate.

Policies of mortgage guaranty insurance may be issued to lending institutions. These policies are considered group policies and the policies and rates are filed with the commissioner of insurance.

Like other types of insurance, mortgage insurance is protection against loss. When financial institutions lend consumers money to purchase properties, the borrower must make a certain down payment. In the past, that amount was 20%, but due to the down payment dilemma, newer loan programs allow as low as 3% down on a home purchase. There are even zero down programs available throughout the states.

However, if one does take advantage of the lower downpayment or under 20%, the lender will consider this loan to be more risky, and will want extra assurance in the form of the mortgage insurance (MI) policy. The MI fee is paid by the borrower in a single lump sum at closing, or financed into the loan amount, or paid monthly and added to the loan payment. The MI protects the lender against a borrower's default.

The lower percent down programs make home ownership easier, but the lower the downpayment, the higher the borrower's mortgage insurance premium and total monthly house payment.

The mortgage insurance industry was developed to act as partners with lenders seeking ways to offer customers more flexible borrowing terms. The 1994, a similar amendment to this one was made amending the amount 95% to 97%. The Insurance Department regulates these entities and sees no reason to limit their participation in the market place.

Mortgage Calculators

<p>Payment Calculation Made Easy! Calculating payments is now fun and simple!! Simply enter your purchase amount, your down payment, and either select or enter in your term -- in years. Then, select or enter an interest amount and click "Calculate" to instantly compute your results! It's <i>that</i> simple!</p>	
Purchase Price: \$ <input type="text" value="200000"/>	
Down Payment: Select % <input type="text" value="5"/> or enter \$ <input type="text" value="10000"/>	
Loan Term: Select <input type="text" value="30"/> or enter <input type="text" value="30"/> the term (in years).	
Interest Rate: <input type="text" value="8"/> %	
<input type="button" value="Calculate"/> <input type="button" value="Reset"/>	
Principle & Interest:	<input type="text" value="\$1394.15"/>
Estimated Taxes and Hazard Insurance:	<input type="text" value="\$250"/>
Monthly Mortgage Insurance:	<input type="text" value="\$121.67"/>
Total Mortgage Payment:	<input type="text" value="\$1765.82"/>
(LTV) Loan To Value Ratio:	<input type="text" value="95%"/>

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Mortgage Calculators

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<p>Purchase Price: \$ <input type="text" value="200000"/></p>	
<p>Down Payment: Select % <input type="text" value="20"/> or enter \$ <input type="text" value="40000"/></p>	
<p>Loan Term: Select <input type="text" value="30"/> or enter <input type="text" value="30"/> the term (in years).</p>	
<p>Interest Rate: <input type="text" value="8"/> %</p>	
<p><input type="button" value="Calculate"/> <input type="button" value="Reset"/></p>	
Principle & Interest:	<input type="text" value="\$1174.02"/>
Estimated Taxes and Hazard Insurance:	<input type="text" value="\$250"/>
Monthly Mortgage Insurance:	<input type="text" value="\$0"/>
Total Mortgage Payment:	<input type="text" value="\$1424.02"/>
(LTV) Loan To Value Ratio:	<input type="text" value="80%"/>

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Matthew S. Goddard, Vice President

700 S. Kansas Ave., Suite 512
Topeka, Kansas 66603
(785) 232-8215

To: House Insurance Committee

From: Matthew Goddard
Heartland Community Bankers Association

Date: March 2, 2000

Re: Senate Bill No. 444

The Heartland Community Bankers Association appreciates the opportunity to express our support for Senate Bill 444 to the House Committee on Insurance.

The bill amends KSA 1999 Supp. 40-3502(c) to allow mortgage guaranty companies to offer mortgage guaranty insurance on mortgages with a 100 percent loan-to-value ratio. At present, Kansas law limits coverage to loans that do not exceed a 97 percent ratio. Prior to 1994, mortgage guaranty insurance was limited to loans that did not exceed a 95 percent loan-to-value ratio.

Mortgage guaranty insurance reduces a lender's exposure to risk on high loan-to-value mortgages. Without insurance coverage or other guarantees, lenders are not willing to assume the risk associated with making high loan-to-value loans.

Under current law, a borrower obtaining a conventional mortgage must be able to afford at least a three-percent downpayment. Senate Bill 444 would allow private lenders in Kansas to offer a conventional mortgage without requiring a downpayment. Such products are generally targeted towards low- and moderate-income borrowers. A no downpayment mortgage product would also have broad appeal for first time homebuyers.

Some government programs, most notably the Federal Housing Administration, already offer mortgage products that require no downpayment. Not all lenders participate, however, because of the administrative and regulatory burden.

The Heartland Community Bankers Association respectfully requests that the House Insurance Committee recommend SB 444 favorable for passage.

Thank you.

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The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

March 2, 2000

TO: House Committee on Insurance

FROM: Kathleen Taylor Olsen, Kansas Bankers Association

RE: **SB 444: Mortgage Guaranty Insurance**

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear before you today in support of **SB 444**, which allows mortgage guaranty insurance to cover up to 100% of the fair market value of real estate secured by a first mortgage.

Mortgage guaranty insurance is a valuable tool in real estate lending. It is our understanding that the amendment contained in this bill is necessary to keep Kansas-based companies competitive with those offering the same product in other states.

Thank you for your attention to this matter and we hope that you look favorably upon the passage of **SB 444**.

Handwritten: HSE Ins Comm
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