

MINUTES OF THE HOUSE COMMITTEE ON INSURANCE.

The meeting was called to order by Chairperson Rep. Robert Tomlinson at 3:35 pm on January 22, 2002 in Room 527-S of the Capitol.

All members were present except: Representative Gene O'Brien

Committee staff present: Bill Wolff, Legislative Research
Mr. Ken Wilke, Legislative Revisor
Mary Best, Administrative Assistant

Conferees appearing before the committee: Mr. Shelby Smith, American Leukemia Association
Mr. Bill Sneed, Mortgage Insurance Companies of America
Mr. Kevin Glendening, State Bank Commissioner Office

Others attending: See Attached Guest List

Upon calling the meeting to order, Chairman Tomlinson recognized Mr. Shelby Smith, American Leukemia Association. Mr. Smith came before the committee to present a bill regarding insurance coverage for expenses for participating in a clinical trial. There were no questions and there was no written testimony.

HB 2639- Mortgage Guaranty Insurance Company; authorized real estate security requirements

Mr. Bill Sneed representing Mortgage Insurance Companies of America, was the next conferee to come before the committee. Mr. Sneed gave Proponent Testimony regarding HB 2639- Mortgage Guaranty Insurance Company; authorized real estate security requirements. A copy of the written testimony is (Attachment #1) attached hereto and incorporated into the Minutes by reference. Mr. Sneed explained the bill was to amend K.S.A. Section 40-3502©), permitting "mortgage guaranty insurers to insure mortgage loans over 100% of the value of the underlying property." He continued on to explain that eliminating the maximum loan to value ratio ("LTV"), would allow Kansas citizens with a good credit history and stable income to finance the closing cost and fees associated with the real estate transaction. After completing his testimony, Mr. Sneed stood from questions from the committee. Questions were directed from the Revisor, correcting the bill number on the fourth page, Representatives Kirk, Boston, Phelps, McCreary, Huff, and Chairman Tomlinson.

Mr Kevin Glendening, State Bank Commissioner Office, requested time to address the committee and present testimony against the bill. A copy of the testimony is (Attachment #2) attached hereto and incorporated into the Minutes by reference. He is against the bill feeling the bill would allow the mortgage insurance to be written in any amount by the lender. He feels the removal of the ceiling could encourage lenders to make loans that fall into "high loan-to-value loans, which are not necessarily understood by the consumers and are know as "subprime market". He did not feel these loans were in the best interest of the consumer.

Questions were asked by Representatives Grant, Hummerickhouse, Mayans, Toelkes, Kirk, Grant, Sharp (to Mr. Sneed), and the Chairman. Mr. Glendening directed questions to Mr. Sneed. With no further discussion, the hearing was closed.

The Chair called the attention of the committee to the Minutes of the last meeting (January 15), Representative Phelps made the motion to accept the Minutes without corrections. Representative Grant seconded the motion. The motion passed.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON INSURANCE at on January 22, 2002 in Room 527-S of the Capitol.

The meeting was adjourned. Time was 4:45 pm. The next meeting will be held January 29, 2002, at 3:30pm.

HOUSE INSURANCE COMMITTEE GUEST LIST

DATE: Jan 22, 2002

NAME	REPRESENTING
Bill Sneed	MICA
Jeff botenberg	MICA
STEWART Smith	LLS
RON GACHES	KAMB
LARRY MAGILL	KATA
Robert Chromanski	KTLA
Chuck Stoves	KBA
Linda DeBoursey	Ks Ins. Dept
Kevin Glendening	OSDC
Scott Gethys	Kansas Ins. Dept.
Franklin Wilson	Off State Bank Comm.
Jamie Ann Hower	KAHP
David A. Hanson	Ks Insur Assoc
Linda DeBoursey	KID

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Memorandum

TO: The Honorable Bob Tomlinson, Chairman
House Insurance Committee

FROM: William W. Sneed, Legislative Counsel
Mortgage Insurance Companies of America

RE: H.B. 2639

DATE: January 22, 2002

Mr. Chairman, Members of the Committee: My name is Bill Sneed and I represent Mortgage Insurance Companies of America ("MICA"). MICA is a national trade association that represents all seven private mortgage insurance companies, each of which is licensed to transact mortgage guaranty insurance in Kansas and throughout the United States.¹ We appreciate the Committee's willingness to introduce H.B. 2639 and respectfully request your favorable action on this bill.

H.B. 2639 would amend K.S.A. §40-3502(c) to permit mortgage guaranty insurers ("MI's") to insure mortgage loans over 100% of the value of the underlying property. Currently K.S.A. §40-3502(c) limits MI's from insuring loans in excess of 100%. Eliminating the maximum loan to value ratio ("LTV"), which most states have already done, will allow Kansas citizens with a good credit history and stable income to not only afford their home, but also

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

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HOUSE INSURANCE

DATE: *January 22, 2002*
ATTACHMENT #1

finance the closing costs and fees associated with the real estate transaction. Such costs typically account for three percent of the total amount of the loan itself, and most MI's in states that do not have a maximum restriction are offering insurance for up to 103% of the property value.

Lenders generally require mortgage insurance 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 shares the risk of foreclosure with the lender. In addition, the lender and the MI share a common interest in the mortgage loan, since each stand to lose in the event of a borrower default.

The elimination of the LTV is the culmination of a national legislative trend to allow greater numbers of homebuyers to purchase a home, including immigrants and other first time homebuyers, who are creditworthy but lack the savings necessary for a down payment. The Kansas Legislature increased the LTV from 95% to 97% in 1994, and subsequently to 100% in 2000. Such changes made a home purchase available to thousands of qualified homebuyers who otherwise would not have been able to purchase a home. The LTV limits were originally enacted to protect MI's and lenders from taking on what would be perceived to be loans which were too risky, with a higher LTV associated with a higher level of risk. The increase of the LTV limit over the years and the successful experience of the industry in underwriting loans have made legislatures more comfortable in allowing increases, especially given the public policy benefit of qualifying more home buyers.

Currently only nine state in addition to Kansas impose a maximum LTV restriction, as the remaining states have no limit on the maximum LTV for a loan insured by a mortgage

insurer.² In fact, the states in which several MI's are domiciled do not impose a maximum LTV, as North Carolina, Pennsylvania and Wisconsin, home of five of the seven MI's, do not limit the LTV on an uninsured loan. In effect, these three states with the most direct relationship and control over the mortgage insurance industry do not believe it is necessary to limit the LTV.

Although MI's currently offer programs with a maximum LTV of up to 103%, the elimination of the maximum LTV provision in Kansas law would allow for greater future flexibility and not require future legislation should new programs be developed that result in the need for a new, higher maximum LTV to accommodate the needs of the mortgage markets.

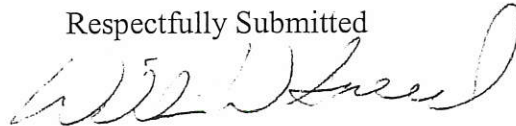
Upon passage of HB 2639, it is important to note that there will still exist effective protections against insurers assuming unacceptable risks and limits on the LTV's of programs offered by MI's. Of course, the MI's themselves have the experience and incentive to insure loans at LTV's prudently, in the same fashion as banks and other financial institutions issue mortgages and other loans. Most importantly, in order to insure loans, as a practical matter each insurer needs to maintain an investment grade claims-paying rating from Standard & Poor's or Moody's. Those rating agencies regularly monitor the types of risks that the insurers write. A substantial change in the characteristics of insured loans, including increases in LTV's, on a material part of an insurer's business would be analyzed by the rating agencies for the effect on the financial condition of the insurer and would need to be justified by the insurer. This rating analysis results in a very effective control on the risks that an insurer assumes and should be even more effective than a statutory maximum LTV limit.

² The only other states that impose a maximum LTV are Arizona, California, Idaho, Missouri and New York at 100%, Oregon at 105%, Illinois and Ohio at 103% and New Jersey at 97%.

Furthermore, the volume of loans above 100% LTV 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, allowing mortgage insurers to insure loans above 100% LTV would expand mortgage markets to underserved groups of homebuyers and provide additional options to lenders and borrowers.

We appreciate the opportunity to present our testimony to the Committee and we respectfully request this Committee's favorable action on ^{HB 2639}~~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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STATE OF KANSAS
BILL GRAVES
GOVERNOR

Franklin W. Nelson
Bank Commissioner

Judi M. Stork
Deputy Bank Commissioner



Sonya L. Allen
General Counsel

Kevin C. Glendening
Deputy Commissioner
Consumer and Mortgage Lending

OFFICE OF THE
STATE BANK COMMISSIONER

HOUSE COMMITTEE ON INSURANCE

January 22, 2002

Mr. Chairman and Members of the Committee:

My name is Kevin Glendening. I am the Deputy Commissioner of the Consumer and Mortgage Lending Division within the Office of the State Bank Commissioner. I am here today to express my concern regarding HB 2639. It is my understanding that removing the 100% fair market value restriction currently contained in the statute would allow mortgage insurance to be written for any amount requested by the lender. My concern is that removal of the ceiling will encourage lenders to make more loans that fall into the category of what we refer to as high loan-to-value (high LTV) loans. In 1999, the Uniform Consumer Credit Code (UCCC) was amended to bring mortgage loans where the loan amount exceeds 100% of the value of the property within the parameters of the UCCC. These types of loans are not necessarily well-understood by consumers, and are popular in what is known as the "subprime market".

My concern regarding HB 2639 is that it will serve to increase the lender's comfort level with making high LTV loans, thereby increasing the number of high LTV loans overall being made to Kansas consumers. If the lender's interest can in fact be fully protected by a product whose cost is traditionally borne by the borrower, it may decrease the scrutiny and caution that lenders currently exercise prior to making a decision to make a loan for more than the value of the property. This would not, in my opinion, be in the best interests of the consumers of Kansas.

HOUSE INSURANCE

DATE: *January 22, 2002*

ATTACHMENT *#2*