REPORT OF THE
STATE CORPORATION COMMISSION'S
BUREAU OF INSURANCE ON

PRIVATE MORTGAGE GUARANTY INSURANCE

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

SENATE DOCUMENT NO. 13

COMMONWEALTH OF VIRGINIA
RICHMOND
1995

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CHAIRMAN

PRESTON C. SHANNON
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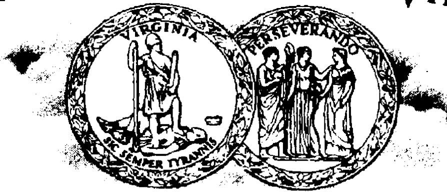
COMMISSIONER

COMMONWEALTH OF VIRGINIA



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STATE CORPORATION COMMISSION

November 16, 1994

TO: The Honorable George Allen
Governor of Virginia
and
The General Assembly of Virginia

We are pleased to transmit this Report of the State Corporation Commission's Bureau of Insurance on Private Mortgage Guaranty Insurance.

The study was initiated and the report prepared pursuant to Senate Joint Resolution No. 177 of the 1994 Session of the General Assembly of Virginia.

Respectfully submitted,

Hullihen Williams Moore
Chairman

Theodore V. Morrison, Jr.
Commissioner

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EXECUTIVE SUMMARY

Purpose of Study

The State Corporation Commission's Bureau of Insurance (Bureau) was requested by the 1994 General Assembly, pursuant to Senate Joint Resolution No. 177, to study (i) whether competition effectively regulates premiums charged by private mortgage guaranty insurers and (ii) whether minimum loss ratio standards should be imposed on companies writing private mortgage insurance in the Commonwealth. This study was requested because questions exist regarding the reasonableness of premiums charged by mortgage guaranty insurers. Also, as stated in the resolution, mortgage guaranty insurance protects the lender against default on the mortgage, and the insurer is selected by the lender while the borrower pays the premium.

Findings

The Bureau surveyed all of the state insurance departments to determine how other states regulate the rates charged by mortgage guaranty insurers. None of the states that responded to the Bureau's survey impose minimum loss ratio standards for mortgage guaranty insurance. Out of a total of 27 responses received, 12 states indicated that mortgage guaranty insurance rates are subject to "prior approval" rating laws (which means that rates must be approved by the insurance department before they are used); 13 states indicated that mortgage guaranty insurance rates are subject to "file and use" or "use and file" rating laws (meaning that rates must be filed with the insurance department, but prior approval is not required); and two insurance departments indicated on the survey that mortgage guaranty insurance rates are not regulated in their state. The Mortgage Guaranty Insurance Model Act, adopted by the National Association of Insurance Commissioners, calls for "file and use" rate regulation for mortgage guaranty insurance rates (meaning that rates do not have to be approved before being used). This is the method of rate regulation currently in effect for mortgage guaranty insurance in Virginia.

The Bureau considered whether there had been many consumer complaints received by its Property and Casualty Consumer Services Section pertaining to mortgage guaranty insurance. The Property and Casualty Consumer Services' records indicate that they received four complaints on mortgage guaranty insurance from January 1, 1991 to October 1, 1994.

In determining whether competition effectively regulates the premiums charged for mortgage guaranty insurance, the Bureau considered a number of factors similar to those used when it conducts its statutory biennial study of the rates charged for commercial liability insurance. The Bureau's findings are summarized below:

(1) Market Share and the Number of Insurers Actually Writing the Coverage. In 1993, there were 17 companies with direct written premiums in Virginia; the top three companies accounted for 74% of the market.

(2) <u>Ease of Entry.</u> While there are no operational or regulatory barriers, Virginia does have a contingency reserve requirement which mandates that 50% of each mortgage guaranty insurer's earned premiums be maintained for 10 years to protect against the effects of adverse economic cycles.

(3) <u>Reliance on Rate Service Organizations.</u> In many lines of insurance, rate service organizations compile statistical data and file rates or loss costs on behalf of their member companies. Unlike other lines of insurance, however, there are no rate service organizations for mortgage guaranty insurance. Therefore, mortgage guaranty insurers independently develop and file their own rates and there is no reliance on rate service organizations to develop and file rates on behalf of the companies.

(4) <u>Rate Differentials.</u> There are moderate rate differentials among a few of the companies writing this line of insurance in Virginia. There are more significant differences, however, between the prices charged by private mortgage insurers for conventional loans and those charged by the Federal Housing Administration for FHA loans. Premiums charged by private mortgage guaranty insurers are generally lower than those charged by the FHA since the FHA provides coverage for 100% of the loan while private mortgage insurers usually provide coverage for 25-30% of the loan. (The lender retains the exposure on the portion of the risk not insured by the private mortgage guaranty insurer.) Although price differentials among insurers are not significant, borrowers are able to shop for the best "package" from lenders. This total package includes the premiums they will pay for mortgage guaranty insurance as well as interest rates, points, and other closing costs.

(5) <u>Level of Profitability.</u> In addition to reviewing countrywide data, the Bureau estimated the recent levels of profitability in Virginia for the seven largest writers of mortgage guaranty insurance in the Commonwealth. Based on 1992 and 1993 data, the two-year weighted average return on surplus was 12.9%, and the two-year aggregate average was 10.7%. Although a two-year profitability history will not reflect normal and expected variations within the business cycle, these figures indicate that Virginia's overall profitability has not been excessive. Similar conclusions can be drawn from countrywide data over the past five years. (According to the 1993 Best's Insurance Reports, the normal range for return on policyholders' surplus is currently from 5% to 15%.)

(6) <u>Competition from Alternative Markets.</u> Competition in this market must be viewed not only in terms of the number of private mortgage insurers competing for business but also in terms of any other competitors. The federal government, through the FHA and the VA, competes with the private sector for business that qualifies for these loans, and a significant share of the market is written through the federal programs.

Despite the level of market concentration in this line of insurance, there is ease of entry, moderate rate differentials, no reliance on rate service organizations, non-excessive rates of return during recent years, and competition from the federal programs. Based on these factors, it would appear that competition effectively regulates the premiums charged for mortgage guaranty insurance.

Finally, the Bureau reviewed the loss ratios of mortgage guaranty insurers transacting business in Virginia and considered the advantages and disadvantages of establishing loss ratio standards for this line of insurance. The Bureau found that mortgage guaranty insurers' loss ratios in Virginia were as high as 162% in 1987 and as low as 38% in 1989. The seven-year average loss ratio for years 1987 through 1993 was 78%. (Loss ratios represent only a portion of a company's cost of doing business in relation to its income. Loss ratios do not take into account a company's other expenses such as acquisition costs, general administrative expenses, taxes, licenses, and fees.)

It would appear that minimum loss ratio standards would not be appropriate for mortgage guaranty insurance for the following reasons:

(1) If the Commission established a minimum loss ratio for mortgage guaranty insurance, any rates set according to that loss ratio would have no effect on policies already in force since rates for mortgage guaranty insurance are established at the inception of the loan and are not adjusted during the term of the loan.

(2) The business cycle in mortgage guaranty insurance tends to run about every 10-15 years, and loss ratios are subject to large fluctuations due to the exposure to catastrophic losses which may result from widespread economic downturns. Mortgage guaranty insurers take this volatility into consideration when setting their rates. Consequently, loss ratios may be either very high or very low, depending on the economic conditions of the region or the country at any given time. Trying to establish an appropriate minimum loss ratio would be difficult for this line of insurance.

Conclusion

Based on the findings contained in this report, the State Corporation Commission's Bureau of Insurance concludes that minimum loss ratio standards should not be established for mortgage guaranty insurance and that sufficient competition exists in this line of insurance to continue regulating mortgage guaranty insurance under Virginia's "file and use" rating laws.

SENATE JOINT RESOLUTION NO. 177

Requesting the State Corporation Commission's Bureau of Insurance to study certair aspects of private mortgage guaranty insurance coverage.

Agreed to by the Senate, March 8, 1994

Agreed to by the House of Delegates, March 4, 1994

WHEREAS, private mortgage guaranty insurance coverage is required by lenders of home buyers who make a down payment of less than 20 percent of the sales price of a home; and

WHEREAS, mortgage guaranty insurance protects the lender against default on the mortgage and the insurer is selected by the lender while the borrower pays the premium; and

WHEREAS, questions exist regarding the reasonableness of premiums charged for mortgage insurance in relation to losses incurred by mortgage insurers; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That the Bureau of Insurance within the State Corporation Commission be requested to study whether competition effectively regulates premiums charged by private mortgage guaranty insurers and whether minimum loss ratio standards should be imposed on companies writing private mortgage insurance in the Commonwealth.

The Bureau of Insurance shall complete its work in time to submit its findings and recommendations to the Governor and the 1995 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

INTRODUCTION

Legislative Request

The State Corporation Commission's Bureau of Insurance (Bureau) was requested by the 1994 General Assembly, pursuant to Senate Joint Resolution No. 177, to study (i) whether competition effectively regulates premiums charged by private mortgage guaranty insurers and (ii) whether minimum loss ratio standards should be imposed on companies writing private mortgage insurance in the Commonwealth.

As stated in the resolution, this study was requested because:

(1) questions exist regarding the reasonableness of premiums charged for mortgage guaranty insurance in relation to losses incurred by mortgage guaranty insurers;

(2) private mortgage guaranty insurance coverage is required by lenders of home buyers who make a down payment of less than 20 percent of the sales price of the home; and

(3) mortgage guaranty insurance protects the lender against default on the mortgage and the insurer is selected by the lender while the borrower pays the premium.

Methodology

The Bureau began its research by contacting all of the other state insurance departments to determine how mortgage guaranty insurance rates are regulated in other states. The Mortgage Guaranty Insurance Model Act developed by the National Association of Insurance Commissioners (NAIC) was also reviewed to determine what method of rate regulation was recommended by the NAIC in its model act. The Bureau also considered a number of factors to determine whether competition effectively regulates rates for mortgage guaranty insurance including (i) the number of insurers actually writing mortgage guaranty insurance in Virginia; (ii) the extent and nature of rate differentials among mortgage guaranty insurers; (iii) the market share of insurers writing mortgage guaranty insurance in Virginia; (iv) ease of entry into the line by insurers not currently writing mortgage guaranty insurance; (v) the degree to which insurers rely on rate service organizations to file rates on their behalf; (vi) insurers' level of profitability; and (vii) the extent of competition from alternative insurance markets. These are many of the same factors the Bureau uses to determine whether competition is an effective regulator of rates for commercial liability insurance. In addition, the Bureau reviewed the loss ratios of mortgage guaranty insurers transacting business in Virginia and analyzed the advantages and disadvantages of establishing loss ratio standards for this line of insurance. Finally, the Bureau considered the number of consumer complaints that have been submitted to the Property and Casualty Consumer Services Section pertaining to mortgage guaranty insurance.

BACKGROUND

Definition of Mortgage Guaranty Insurance

As defined in Section 38.2-128 of the Code of Virginia, mortgage guaranty insurance means indemnifying lenders against financial loss arising from nonpayment of principal, interest, or other sums due under the terms of any evidence of indebtedness secured by a mortgage, deed of trust, or other instrument constituting a lien or charge on real property.

Mortgage guaranty insurance provides protection to the lender by guaranteeing that if a borrower defaults on his loan, the insurer will pay the lender for losses resulting from the foreclosure. Coverage generally includes any unpaid accrued interest, monies advanced for the payment of real estate taxes and hazard insurance, and other costs associated with the resale of the foreclosed property such as real estate brokers' fees and attorneys' fees.[1] If there is a loss, the insurer has two options: (i) to pay the lender the entire outstanding loan balance and take title to the property; or (ii) to pay the lender a portion of the outstanding loan balance specified in the policy (generally 20-25%) and let the lender retain title. The insurer will generally base this decision on the anticipated costs of reselling the foreclosed property and the potential resale price.[2] Although coverage can range anywhere from 2% to 100% of the loan amount, most policies are written to cover 10% to 30% of the outstanding loan amount .[3] Making the lender co-insurer of the excess loss encourages prudent underwriting on the part of the lender, thereby reducing the risk covered by the mortgage guaranty insurer.[4]

Mortgage guaranty insurance is often called private mortgage insurance. Private mortgage insurance is actually mortgage guaranty insurance provided by the private sector on conventional loans as distinguished from mortgage guaranty insurance provided by the federal government on its FHA and VA loans. Non-conventional loans backed by the government are insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA). There are a few differences between private mortgage insurance purchased on a conventional loan and mortgage guaranty insurance provided on an FHA loan. For example, private mortgage insurance can usually be cancelled at the request of the lender while mortgage guaranty insurance on some FHA loans (depending on the loan-to-value ratio) must be carried for the life of the loan. Also, private mortgage insurance is usually written to cover only a certain percentage of the loan amount while the FHA insures 100% of the mortgage.[5]

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[1]Kenneth W. Smith, "The Insuring of Nontraditional Mortgages," Journal of Insurance Regulation, December, 1982, Vol. 1. No. 2, p. 222.
[2]1993-1994 Factbook, Mortgage Insurance Companies of America, Washington, D.C., p. 19.
[3]Arthur D. Little, Inc., "Distinguishing Characteristics of Mortgage Insurance," Prepared at the Request of the Mortgage Insurance Companies of America, August, 1980, p. 5.
[4]Kenneth W. Smith, pp. 224-225.
[5]1993-1994 Factbook, pp. 8-23.

Purpose of Mortgage Guaranty Insurance

"The main purpose of mortgage insurance is to protect lenders from default-related losses on conventional first mortgages made to home buyers who make down payments of less than 20 percent of the purchase price."[6] The insurer provides this financial guaranty to the lender (who is the insured) in exchange for a premium which is usually passed on to the borrower. The borrower benefits from this insurance by being able to qualify for a mortgage with a smaller down payment.[7]

Enabling home buyers to purchase homes with low down payments makes home ownership possible for low and moderate income families. However, since there is an increased risk of default associated with loans made with low down payments, lenders need some type of protection against the increased exposure to losses.[8] "Private mortgage insurance protects the mortgage lending industry against losses, and by sharing the risk inherent in mortgage lending, mortgage insurance allows lenders to continue making loans during difficult economic times."[9]

Mortgage guaranty insurance also makes investing in conventional loans more attractive to investors in both the private and government-related secondary mortgage market.[10] In fact, most investors that buy mortgages in the secondary market, including government sponsored agencies such as the Federal National Mortgage Association (also known as Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), require mortgage guaranty insurance on loans with high loan-to-value (LTV) ratios.[11] Loans with high LTV ratios are loans where the borrower has made a small down payment (e.g., less than 20%) and the resulting ratio between the amount of the mortgage and the value of the property exceeds a certain percentage (e.g., 80%). Conventional loans with LTVs over 90% made by national banks and federal savings and loans are required by federal law to carry mortgage guaranty insurance.[12]

Another role of the mortgage guaranty insurance industry is that of providing expertise to the lender. Mortgage guaranty insurers assist lenders in underwriting their credit risks by helping them evaluate their loss exposure on individual loans as well as their exposure to potential losses resulting from local, regional, or national economic downturns.[13] In addition to providing expertise, the industry's ability to pool and spread

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[6]Ibid, p. 18.
[7]The Arthur D. Little Study of the Private Mortgage Insurance Industry, A Summary Prepared at the Request of the Mortgage Insurance Companies of America, November 1975, p. 3.
[8]1993-1994 Factbook, pp. 8-18.
[9]William H. Lacy and Thomas S. LaMalfa, "The Role of the Private Mortgage Insurance Industry," The Handbook of Mortgage Banking, A Guide to the Secondary Market, (Homewood, Illinois: Dow Jones-Irwin, 1985), Chapter 8, p.137.
[10]The Secondary Market in Residential Mortgages, Federal Home Loan Mortgage Corporation, Publication No. 67, Revised August, 1983, p. 8.
[11]1993-1994 Factbook, p. 18.
[12]Arthur D. Little, Inc., "Distinguishing Characteristics of Mortgage Insurance," p. 18.
[13]1993-1994 Factbook, p. 18.

risks geographically adds stability to the marketplace during cycles that may adversely affect local and regional economies.[14]

Mortgage Guaranty Insurance Compared to Other Property/Casualty Lines

Although mortgage guaranty insurance is regulated in many respects in the same manner as other property and casualty lines of insurance, there are some major differences between mortgage guaranty insurance and other lines of property and casualty insurance. Some of the major differences are listed below:

(1) the risk inherent in mortgage guaranty insurance arises from adverse economic conditions, not natural events, and economic policies set at the national level play an important role in the mortgage guaranty insurance industry's performance;

(2) writers of mortgage guaranty insurance are monoline insurers, meaning they do not write any other lines of insurance;

(3) mortgage guaranty insurance is excluded from coverage under state solvency funds;

(4) mortgage guaranty insurers are subject to special contingency reserve requirements which are designed to protect against future catastrophic losses that may occur as a result of regional or national economic depression;

(5) much of the competition in the mortgage guaranty insurance market comes from the public sector, i.e. FHA and VA loans; and

(6) mortgage guaranty insurance policies may not be cancelled by the insurer except for fraud or nonpayment of premium.[15]

State and Federal Regulation of Mortgage Guaranty Insurance

Mortgage guaranty insurers are subject to state regulation and indirectly to federal regulation. Many states, including Virginia, regulate mortgage guaranty insurance in much the same way they regulate other lines of property and casualty insurance. Seven states, however, have enacted special mortgage guaranty insurance laws based on the Mortgage Guaranty Insurance Model Act adopted in 1976 by the NAIC. Ten other states have enacted similar or related laws.

In addition to state regulatory requirements, mortgage guaranty insurers must also meet the requirements of Freddie Mac and Fannie Mae before loans insured by them will be eligible for purchase in the secondary market by these government agencies. Both agencies impose financial and operational requirements as well as restrict certain

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[14]Ibid., p. 21.
[15]Report prepared by Roger F. Blood of Temple, Barker & Sloane, Inc. for Proposition 103 Hearing, October 31, 1989.

marketing practices. For example, both agencies prohibit insurers from paying commissions to lenders as an inducement to doing business.[16] (This is also prohibited in Virginia under Virginia's anti-rebate statute; Section 38.2-509 prohibits an insurer from paying the lender, who is the insured, any rebate of premium as an inducement.)

The Private Mortgage Insurer Eligibility Requirements published by Freddie Mac in January, 1994, stipulate that an approved insurer must comply with the laws and regulations of its state of domicile and each state in which it does business. Certain provisions contained in the Private Mortgage Insurer Eligibility Requirements make approved insurers comply with sections of the NAIC Model Act. In addition, insurers that are rated below AA- by Standard and Poor's or below Aa3 by Moody's, or who are not rated by either, are not allowed to have a combined ratio (loss ratio plus expense ratio) in excess of 85% for two consecutive calendar years nor are they allowed to write more than 20% of their total book of business in any one Standard Metropolitan Statistical Area. All approved insurers must maintain a minimum surplus of $5 million.

Fannie Mae requires insurers to have paid in capital of not less than $10 million and to be licensed in either California, Illinois, New York, or Wisconsin in addition to any jurisdiction in which the properties they insure are located. Fannie Mae also requires insurers to have at least a Moody's A1 or a Standard and Poor's AA claims payment rating.

Regulation of Mortgage Guaranty Insurance in Virginia

Regulation of Policy Forms

Mortgage guaranty insurance transacted in the Commonwealth of Virginia is regulated under Title 38.2 of the Code of Virginia. Section 38.2-317 gives the Bureau the authority to approve and disapprove policy forms and endorsements delivered or issued for delivery by mortgage guaranty insurers in the Commonwealth. These forms and endorsements must be filed with the Bureau at least 30 days prior to their effective date.

Rate Regulation

Rates charged for mortgage guaranty insurance are regulated under the "file and use" provisions of Chapter 19 of the Title 38.2. Virginia's "file and use" rating laws require rates to be filed with the Bureau before they may be used. Section 38.2-1904 states that rates for the classes of insurance to which Chapter 19 applies shall not be excessive, inadequate, or unfairly discriminatory. Section 38.2-1904 states that no rate shall be held to be excessive unless it is unreasonably high for the insurance provided and a reasonable degree of competition does not exist. As further stated in the law, no rate shall be held to be inadequate unless it is unreasonably low for the insurance provided and continued use of it would endanger the solvency of the insurer or would have the effect of

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[16]Chester Rapkin, The Private Insurance of Home Mortgages, (Columbia University, 1973), p. 35.

destroying competition or creating a monopoly. Finally the statute specifies that no rate shall be unfairly discriminatory if a different rate is charged for the same coverage as long as the rate differential is based on sound actuarial principles or on actual or reasonably anticipated experience.

Financial Regulation

The Bureau is responsible for licensing, monitoring, and ensuring the financial solvency of insurance companies doing business in Virginia. Mortgage guaranty insurance companies must meet the financial and operating requirements established in Title 38.2 such as minimum capital and surplus requirements, unearned premium reserve requirements, and loss reserve requirements. In addition, mortgage guaranty insurers are subject to a contingency reserve requirement as set forth in Section 38.2-1315.

Contingency Reserve Requirement

Contingency reserves are special reserves designed to "absorb the financial shocks that would accompany cyclical recession or economic depression."[17] Mortgage guaranty insurance losses can be grouped into three categories (i) normal credit failures which occur throughout the regular business cycle; (ii) localized widespread default caused by adverse local economic conditions; and (iii) national widespread default caused by a severe depression in the economy. Contingency reserves are established to cover losses described in the last two categories.[18]

Section 38.2-1315 of the Code of Virginia requires every mortgage guaranty insurer to maintain a contingency reserve equal to 50% of its earned premiums. This reserve must be maintained for 10 years and is only available for loss payments when the incurred losses in any one 12-month period exceed 35% of the corresponding earned premium, i.e. when the loss ratio exceeds 35%. As stated in the code, the purpose of establishing the contingency reserve is to protect against the effects of adverse economic cycles. This particular reserve requirement is unique to mortgage guaranty insurance because of the industry's potential for experiencing catastrophic losses as a result of widespread adverse economic conditions. The requirement that allocations to the contingency reserve be maintained for 10 years is reflective of the need to establish a reserve for a period longer than the expected life of the policy, which averages seven years.[19] It is also reflective of the need to consider the impact that economic cycles, generally running about every 10-15 years, have on the mortgage insurance loss cycle.[20] "The contingency reserves allow insurers to build reserves during the valley of the risk cycle in order to pay claims during peak years."[21]

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[17]Roger F. Blood, p. 5.
[18]Arthur D. Little, Inc., "Establishing Reserves in Mortgage Guaranty Insurance," Prepared for the Mortgage Insurance Companies of America, July, 1981, p. 28.
[19]Arthur D. Little, Inc., "Distinguishing Characteristics of Mortgage Insurance," p. 13.
[20]Roger F. Blood, pp. 5-7.
[21]1993-1994 Factbook, p. 29.

SURVEY OF OTHER STATES

A survey of the other state insurance departments was conducted to determine how they regulate the rates charged by mortgage guaranty insurance companies. All of the state insurance departments were surveyed. A total of 27 states responded. Twelve states indicated that mortgage guaranty insurance was subject to their "prior approval" rating laws, which means that rates must be approved by the insurance department before they are allowed to be used. These states are as follows:

Alabama
Alaska
Iowa
Kansas
Mississippi
Nebraska
New York
North Dakota
Oklahoma
Pennsylvania
South Carolina
South Dakota

The 13 states shown below indicated on the Bureau's survey that mortgage guaranty insurance was subject to their "file and use" or "use and file" rating laws. These laws require insurers to file their rates with the insurance department but do not require rates to be approved. Virginia also regulates mortgage guaranty insurance rates under its "file and use" rating laws.

Arkansas
Colorado
Connecticut
Florida
Idaho
Maine
Michigan
Minnesota
Montana
Oregon
Texas
Utah
Wisconsin

Two states indicated on the survey that they do not regulate mortgage guaranty insurance rates. These states are Illinois and North Carolina.

The NAIC Mortgage Guaranty Insurance Model Act calls for rates to be filed with the insurance department. The model act does not call for rates to be approved prior to being used nor does it recommend that minimum loss ratio standards be adopted by individual states. None of the states that responded to the Bureau's survey indicated that mortgage guaranty insurance was subject to minimum loss ratio standards.

COMPETITION IN THE MORTGAGE GUARANTY INSURANCE MARKET

One of the objectives stated in Senate Joint Resolution No. 177 was to study whether competition effectively regulates the premiums charged by private mortgage guaranty insurers. The Bureau considered a number of factors to determine whether competition effectively regulates rates for mortgage guaranty insurance including (i) the number of insurers actually writing mortgage guaranty insurance in Virginia; (ii) the market share of insurers writing mortgage guaranty insurance in Virginia; (iii) ease of entry into the line by insurers not currently writing mortgage guaranty insurance; (iv) the degree to which insurers rely on rate service organizations to file rates on their behalf; (v) the extent and nature of rate differentials among mortgage guaranty insurers; (vi) insurers' level of profitability; and (vii) the extent of competition from alternative insurance markets. These are many of the same factors the Bureau uses to determine whether competition is an effective regulator of rates for commercial liability insurance. These factors will be discussed below.

Market Share

In 1992, 19 companies reported $70,062,196 in direct premiums written for mortgage guaranty insurance in the Commonwealth. The top three insurers accounted for 71% of the market:

(1) General Electric Mortgage Insurance Corporation wrote 38%;
(2) PMI Mortgage Insurance Company wrote 19%; and
(3) Mortgage Guaranty Insurance Corporation wrote 14%.

In 1993, 17 companies reported $82,964,606 in direct premiums written for mortgage guaranty insurance in the Commonwealth. The top three insurers accounted for 74% of the market:

(1) General Electric Mortgage Insurance Corporation wrote 40%;
(2) PMI Mortgage Insurance Company wrote 20%; and
(3) Mortgage Guaranty Insurance Corporation wrote 14%.

The top 11 companies wrote 99.9% of the mortgage guaranty business in Virginia during 1993. Among these top 11 companies, five are currently owned by GE Capital Mortgage Corporation. In 1993, this group of insurance companies controlled 42% of the market (40% was written by General Electric Mortgage Insurance Corporation and the other 2% was written by the other four companies within the group). The top seven companies in 1993, which controlled 98% of the market, were unaffiliated. (See Appendix A showing the 1992 Detail and 1993 Detail of Mortgage Guaranty Insurance Business in the State.)

Ease of Entry

There are no operational or regulatory barriers to entering this market in Virginia. Mortgage guaranty insurers must meet company licensing requirements such as establishing minimum capital and surplus, and they must file their policy forms and rates with the Bureau before policies can be issued. As with most lines of insurance, a certain level of expertise is necessary for insurers that wish to enter this market, but no special restrictions or unique regulatory requirements exist in Virginia for mortgage guaranty insurers as they do in some other states. The only special regulatory requirement imposed on mortgage guaranty insurers in Virginia is the contingency reserve requirement which mandates that 50% of the insurer's earned premiums be set aside for catastrophic losses.

Reliance on Rate Service Organizations

One of the factors considered in determining whether competition exists in the marketplace is the degree to which insurers rely on rate service organizations to file rates on their behalf. In theory, the less insurers rely on rate service organizations to file rates on their behalf, the more competitive the marketplace will be. There are no rate service organizations in this line of insurance. Rates are independently developed and filed by each insurer. A trade organization exists, which is the Mortgage Insurance Companies of America (MICA), but MICA does not gather loss statistics nor does it promulgate rates or loss costs data for its member insurers.

Rate Differentials

Rates for mortgage guaranty insurance are shown as a percentage of the loan amount. A variety of rate structures exist for this line of insurance. Mortgage guaranty insurers offer payment plans that allow the premium to be paid once a year or in advance in a single premium for a specified number of years.[22]

Competition within the private mortgage guaranty insurance industry tends to focus on (i) speed of service; (ii) underwriting requirements; (iii) collateral services such as facilitating placement of business in the secondary market; and (iv) financial solidity.[23] As part of this study, the Bureau of Insurance also attempted to evaluate whether price was used as a competitive tool. An analysis was conducted on the extent and nature of rate differentials among the mortgage guaranty insurers doing business in Virginia. Rates for the top seven writers were reviewed. This included General Electric Mortgage Insurance Corporation, PMI Mortgage Insurance Company, Mortgage Guaranty Insurance Corporation, Republic Mortgage Insurance Company, United Guaranty Residential Insurance Company, Commonwealth Mortgage Assurance Company, and Triad Guaranty Insurance Corporation. Together these companies wrote 98% of the business in Virginia in 1993.

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[22]Arthur D. Little, Inc., "Distinguishing Characteristics of Mortgage Insurance," p. 15-17.
[23]The Arthur D. Little Study of the Private Mortgage Insurance Industry, pp. 27-29.

The chart below compares the rates charged by each of these seven companies using the following rating example. The purchase price of an owner-occupied dwelling is $100,000 and the borrower is making a down payment of $5,000; the LTV ratio is 95%; the lender has chosen 25% coverage; the premium, which is refundable, is paid annually and the initial and subsequent premiums are the same; coverage is based on a fixed payment mortgage.

Rate and Premium Comparison

Company	Rate	Premium	Years
General Electric Mortgage Ins. Corp.	.64%	$608/year	(Years 1-10)
	.20%	$190/year	(Years 11-term)
PMI Mortgage Ins. Company	.63%	$598.50/yr	(Years 1-10)
	.25%	$237.50/yr	(Years 11-term)
Mortgage Guaranty Ins. Corp.	.64%	$608/year	(Years 1-10)
	.20%	$190/year	(Years 11-term)
Republic Mortgage Ins. Co.	.64%	$608/year	(Years 1-10)
	.20%	$190/year	(Years 11-term)
United Guaranty Residential Ins. Co.	.52%	$494/year	(Years 1-term)
Commonwealth Mortgage Assurance	.63%	$598.50/yr	(Years 1-10)
	.19%	$180.50/yr	(Years 11-term)
Triad Guaranty Ins. Corp.	.50%	$475/year	(Years 1-10)
	.20%	$190/year	(Years 11-term)

Also, it is interesting to compare these rates with those charged by the FHA. The FHA charges an initial premium of 2.25% of the loan balance. This can either be paid up front or it can be financed as part of the loan. In addition, an annual renewal premium of .50% of the mortgage balance must be paid. This is paid on a monthly basis and must be carried for seven years if the LTV ratio is under 90%; for 12 years if the LTV ratio is between 90 and 95%; and for the full 30 years if the LTV ratio is over 95%.

In the rating example shown above, where the borrower has made a down payment of 5% on a $100,000 dwelling, the initial premium would be $2,137.50 and each renewal premium would be $475/year ($39.58/month). Of course, it should be mentioned that coverage provided by the FHA is for 100% of the loan so the rate charged will reflect more coverage than that generally provided by private mortgage insurers. Loans insured by the FHA also have the full backing of the U.S. Treasury.

Level of Profitability

The Bureau also reviewed the level of profitability of the top 11 writers of mortgage guaranty insurance in Virginia. These insurers represented 99.9% of the market in Virginia in 1993. The 1993 Edition of Best's Insurance Reports published by A.M. Best provides countrywide rates of return on surplus for seven of these companies (figures were not reported to A.M. Best by General Electric Mortgage Insurance Corporation, GE Residential Mortgage Insurance Corporation, or General Electric Mortgage Insurance Corporation of North Carolina, and data was not available for Home Guaranty Insurance Corporation). Return on policyholders' surplus is one measure of profitability which the State Corporation Commission has used in the past. As described in Best's Insurance Reports, this ratio "measures a company's overall profitability from underwriting and investment activity after tax, related to the company's statutory net worth at the beginning of the year." According to the 1993 Edition of Best's Insurance Reports, the normal range for this ratio is currently from 5% to 15%. The following chart, showing companies in descending order of market share, summarizes each of the seven companies' return on policyholders' surplus for the years 1988 through 1992.

Mortgage Guaranty Insurance
Countrywide Rates of Return on Policyholders' Surplus[24]
(1988-1992)

Company	1988	1989	1990	1991	1992	5-Year Average
PMI Mortgage Ins. Co.	1.2%	15.6%	17.2%	23.3%	43.4%	20.1%
Mortgage Guaranty Ins. Corp.	6.1	8.1	8.5	13.5	8.3	8.9
Republic Mortgage Ins. Co.	3.5	12.3	21.5	35.4	58.2	26.2
United Guaranty Residential Ins. Co.	5.4	11.9	8.8	11.4	18.7	11.2
Commonwealth Mortgage Assurance Co.	-1.4	7.2	6.8	4.6	19.9	7.4
Triad Guaranty Insurance Corp.	-3.3	2.6	.9	3.2	24.7	5.6
Verex Assurance Inc.	21.5	13.3	3.3	0.0	5.3	8.7
Annual Average	4.7%	10.1%	9.6%	13.1%	25.5%	12.6%

In addition to Best's Insurance Reports, the Bureau also reviewed Standard & Poor's Insurance Book dated April, 1994, which provides insurer rating analyses. Nine of the top eleven mortgage guaranty insurers in Virginia were listed in Standard & Poor's insurance rating analysis (Triad and Verex were not listed). Each company's countrywide

[24]Best's Insurance Reports Property-Casualty, 1993 Edition, (Oldwick, New Jersey: A.M. Best Company, Inc., 1993).

return on equity was provided for the past five years. Return on equity is another measure of an insurer's profitability which the State Corporation Commission has used in the past. Return on equity is the relationship of net income to average stockholders' equity and is based on generally accepted accounting principles (GAAP). The following chart, showing companies in descending order of market share, summarizes each company's return on equity for the years 1988 through 1992.

Mortgage Guaranty Insurance
Countrywide Rates of Return on Equity[25]
(1988-1992)

Company	1988	1989	1990	1991	1992	5-Year Average
General Electric Mortgage Ins. Corp.	13.0%	14.7%	16.9%	19.0%	N/A*	15.9%**
PMI Mortgage Ins. Co.	-12.2	14.0	15.3	14.7	23.9	11.1
Mortgage Guaranty Ins. Corp.	20.0	21.5	24.1	21.7	N/A*	21.8**
Republic Mortgage Ins. Co.	3.3	12.1	17.9	23.2	28.5	17.0
United Guaranty Residential Ins. Co.	N/A*	10.4	10.3	14.0	17.5	13.1**
Commonwealth Mortgage Assurance	-1.2	11.6	9.7	6.0	16.5	8.5
Home Guaranty Ins. Corp.	-3.6	1.9	7.8	10.3	N/A*	4.1**
GE Residential Mortgage Ins. Corp. of N.C.	-9.1	10.4	9.9	20.4	N/A*	7.9**
General Electric Mortgage Ins. Corp. of NC	2.4	23.5	13.7	12.6	N/A*	13.1**
Annual Average	1.6%	13.3%	13.9%	15.8%	21.6%	13.2%

* Not available at the time of this report
** 4-Year Average

Based on this data, it would appear that, over the past five years, there has been a significant amount of fluctuation in the companies' rates of return, and the profit picture for this line of insurance has been steadily improving. Based on the average rates of return calculated over the five-year period, it would appear that mortgage guaranty insurers overall have not been earning excessive profits.

Since losses and other expenses can vary widely by region or state, the Bureau has estimated the recent rates of profitability in Virginia for the largest writers of mortgage

[25]Standard & Poor's Insurance Book, April 1994, Insurer Rating Analyses, (New York: McGraw-Hill, Inc., 1994).

guaranty insurance in the Commonwealth. The table in Appendix B provides 1992 and 1993 Virginia direct business rates of return on statutory surplus for the seven largest writers.[26] As this tables shows, the two-year weighted average return on surplus is 12.9%, and the two-year aggregate average is 10.7%. Although a two-year profitability history will not reflect normal and expected variations within the business or insurance cycles, the data indicates that Virginia's overall profitability has not been excessively high or low over this two-year period.

Competition from Alternative Markets

In addition to competing with each other, private mortgage guaranty insurers also compete with two other sources outside of the private mortgage industry: (i) federal government mortgage insurers (FHA and VA); and (ii) self-insurers. Self-insurers are lenders that retain their own mortgage risks. Lenders that self-insure not only keep premiums that would have otherwise been paid to the mortgage guaranty insurance industry but also create adverse selection for the industry. Adverse selection occurs when lenders self-insure only those loans they perceive to be of high quality and submit to mortgage guaranty insurers loans they consider weak.[27] Competition from self-insurers must be considered limited at best, however, because of the insurance requirements imposed by Freddie Mac and Fannie Mae for loans with high LTV ratios.

Private mortgage insurers compete with the FHA and the VA. In fact, the FHA is trying to capture more of the market, and a bill is currently before Congress that would increase the ceiling on property values eligible for FHA loans, thereby making the FHA program more competitive with the private sector. Compared to business written through the FHA and the VA, private mortgage insurance represented 58% of the business written in 1992; 48.5% in 1991; 37.7% in 1990; and 39.3% in 1989. These figures are based on the face amount of the loans insured. Based on the number of loans insured, private mortgage insurance represented 48.5% of the business in 1992; 38.4% in 1991; 28.2% in 1990; and 29.6% in 1989.[28]

Summary

Competition within the mortgage guaranty insurance industry can be evaluated in terms of a number of factors. These are summarized below.

Market Share and the Number of Insurers Actually Writing the Coverage: Seventeen companies reported direct written premiums in 1993; the top seven unaffiliated companies dominate the market, representing 98% of the business written in Virginia.

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[26]It should be noted that rates of return on statutory accounting principles (SAP) surplus are usually but not always higher than attendant rates of return on generally accepted accounting principles (GAAP) stockholders' equity. This is primarily due to the exclusion of certain assets (non-admitted assets) under SAP conventions.
[27]Rapkin, pp. 641-642.
[28]1993-1994 Factbook, p. 24.

Ease of Entry: There are no operational or regulatory barriers in Virginia. The only special regulatory requirement in Virginia is the contingency reserve requirement.

Reliance on Rate Service Organizations: Mortgage guaranty insurers independently develop and file their own rates; there is no reliance on rate service organizations to develop and file rates on behalf of the companies.

Rate Differentials: Although some price differentials were noted in the rating example used for this study, there was some duplication among a few of the companies in the rates being charged. Price differentials are more noticeable when comparing the prices charged by private mortgage insurers with those charged by the FHA. Premiums charged by private mortgage guaranty insurers are generally lower than those charged by the FHA since the FHA provides coverage for 100% of the loan while private mortgage insurers usually provide coverage for 25-30% of the loan. (The lender retains the exposure on the portion of the risk not insured by the private mortgage guaranty insurer.) It should also be noted that although price differentials among insurers are not significant, borrowers are able to shop for the best "package" from lenders. This total package includes the premiums they will pay for mortgage guaranty insurance as well as interest rates, points, and other closing costs.

Level of Profitability: When averaged over the past five years, profits for mortgage guaranty insurers countrywide do not appear to be excessive. Rates of return for Virginia business were also analyzed. A profitability analysis for the seven largest writers in Virginia shows a two-year weighted average return on statutory surplus of 12.9% and a two-year aggregate average of 10.7%.

Competition from Alternative Markets: Competition in this market must be viewed not only in terms of the number of private mortgage insurers competing for the business but also in terms of any other competitors. The FHA and the VA compete significantly with the private sector for this business.

Based on the preceding information, it would appear that sufficient competition exists in this market to regulate effectively the premiums charged for mortgage guaranty insurance.

ADVANTAGES AND DISADVANTAGES OF ESTABLISHING LOSS RATIO STANDARDS FOR MORTGAGE GUARANTY INSURANCE

In addition to studying whether competition effectively regulates premiums charged by private mortgage guaranty insurers, Senate Joint Resolution No. 177 requested the Bureau to study whether minimum loss ratio standards should be imposed on companies writing private mortgage insurance in the Commonwealth. This section of the report explains the current methods of rate regulation in Virginia and focuses on the advantages and disadvantages of establishing minimum loss ratio standards as a new method of rate regulation for mortgage guaranty insurance.

Current Methods of Regulating Property and Casualty Insurance Rates

Rates for property and casualty insurance in Virginia are subject to one of three different types of rate regulation. As discussed earlier in the report, mortgage guaranty insurance rates are subject to Virginia's "file and use" rating laws, and as such, must be filed with the Bureau before they may be used. These rates may be neither excessive, inadequate, nor unfairly discriminatory. Most lines of property and casualty insurance are subject to Virginia's "file and use" rating laws. There are some exceptions, however. Certain lines of property and casualty insurance are regulated under Virginia's "prior approval" rating laws, and some lines are regulated under Virginia's "delayed-effect" rating laws.

Rates charged for uninsured motorist coverage, home protection contracts, and the residual market facilities for basic property insurance, automobile insurance, and workers' compensation insurance are regulated under Virginia's "prior approval" rating laws. Rates that are subject to prior approval must be submitted to the Bureau for actuarial and economic review and must be approved prior to being used.

Certain lines of commercial liability insurance are subject to "delayed-effect" rate regulation in Virginia. When the Commission finds that insufficient competition exists to regulate rates effectively for certain lines of commercial liability insurance, the Commission makes those lines subject to Virginia's "delayed-effect" rating laws. Rates for those lines of insurance must be filed 60 days before they become effective and are subject to actuarial and economic review.

Advantages and Disadvantages of Minimum Loss Ratio Standards

The primary advantage of establishing minimum loss ratio standards is having the Commission's approval. Consumers are protected because the rates they are charged are based on loss ratios established or approved by the Commission, and companies cannot earn excessive profits.

The primary disadvantages of establishing minimum loss ratio standards for mortgage guaranty insurance are shown below:

(1) No Effect on Policies in Force: Rates charged for mortgage guaranty insurance are for the life of the loan. Rates are not adjusted during the term of the loan (which averages seven years), and the only reason an insurer may cancel a mortgage guaranty insurance policy is for non-payment of premium or material misrepresentation. If loss ratios are established by the Commission, it will not change the rates for policies (certificates) that are already in effect.

(2) Complex Rating Variables: The rate structure for mortgage guaranty insurance is very complex and reflects several unique variables including:

- coverage/loan-to-value options
- fixed vs. non-fixed payment mortgages
- 15 year vs. 30 year mortgages
- primary residence vs. second home loans
- potential and scheduled negative amortized loans[29]

(3) Volatility of Loss Experience: In mortgage guaranty insurance, the likelihood of a loss is tied not only to the borrower's income in relation to his loan payment but to local market conditions and the economic health of the entire region or country as well. Economic cycles in this business last about 10-15 years. Because of the volatility of the loss experience for this line of insurance, establishing minimum loss ratios may not be appropriate.

(4) Exposure to Catastrophic Losses: Mortgage guaranty insurance is subject to large swings in the loss cycle due to the exposure to catastrophic losses. Loss ratios can typically range anywhere from 20% to 120%.[30] During the mid to late 1980's, they were even higher. This makes the establishment of appropriate minimum loss ratio standards difficult to achieve.

Loss Ratios for Mortgage Guaranty Insurers

Countrywide loss ratios for mortgage guaranty insurers have been steadily improving over the past seven years, coming down from 182.2% in 1987 to 53.4% for the first nine months of 1993.[31] In Virginia, the average loss ratio for mortgage guaranty insurers fell from 162% in 1987 to 96% in 1993. (Virginia figures were calculated by dividing direct losses incurred by direct premiums earned. These loss ratios do not

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[29] Letter submitted to the Bureau of Insurance by Frank J. Karlinski, III, Principal, William M. Mercer, Inc. on Rate Regulation of Mortgage Guaranty Insurance, January 24, 1994.

[30] Roger F. Blood, p. 7.

[31] David M. Graifman, "Mortgage Insurance: The Party Continues," Focus, Standard & Poor's Insurance Rating Services, February 1994, p. 45.

contemplate removal of contingency reserves from the loss ratio calculations since contingency reserves are not reported separately for Virginia on the insurers' annual statements.) It should be mentioned that loss ratios represent only a portion of a company's cost of doing business in relation to its income and do not take into consideration the other expenses a company incurs such as acquisition costs, general administrative expenses, taxes, licenses, and fees. The industry's average loss ratios in Virginia for years 1987 to 1993 are shown as follows:

1987	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**
162%	*59%*	*38%*	*62%*	*60%*	*66%*	*96%*

Based on these figures, the seven-year average for this period is 78%.

Summary

It would not appear to be appropriate to change the current "file and use" system of regulating mortgage guaranty insurance rates to one in which minimum loss ratios are developed. Loss ratios in this line of insurance are subject to wide variations; the business cycle tends to last at least 10 years; rating variables are very complex; and any rate changes made as a result of the establishment of minimum loss ratios would have no effect on policies (certificates) in force because coverage is written for the life of the loan and does not renew annually as in other lines of insurance.

CONSUMER COMPLAINTS RECEIVED BY THE BUREAU

The State Corporation Commission maintains a toll-free "hotline" for consumer inquiries and complaints. Inquiries and complaints pertaining to mortgage guaranty insurance are handled by the Bureau's Property and Casualty Consumer Services Section. The Bureau's records show that four consumer complaints on mortgage guaranty insurance were filed between January 1, 1991 and October 1, 1994.

CONCLUSION

The State Corporation Commission's Bureau of Insurance was asked to study whether competition effectively regulates premiums charged by private mortgage guaranty insurers and whether minimum loss ratio standards should be established for these insurers. In determining whether competition effectively regulates premiums, the Bureau considered a number of factors including (i) the number of insurers writing this line and their market share; (ii) ease of entry into the line; (iii) reliance on rate service organizations; (iv) rate differentials; (v) level of profitability; and (vi) competition from alternative insurance markets. Based on the Bureau's research, it would appear that sufficient competition exists in the mortgage guaranty insurance market to regulate rates effectively.

The Bureau also considered the advantages and disadvantages of establishing loss ratio standards as a new method of rate regulation for this line of insurance. It would appear that minimum loss ratio standards would not be appropriate for mortgage guaranty insurance primarily because of the length of the business cycle in this line of insurance and the large variations in loss ratios due to the exposure to catastrophic losses. No other state makes mortgage guaranty insurance rates subject to minimum loss ratio standards. Mortgage guaranty insurance is currently subject to Virginia's "file and use" rating laws, as it is in a number of other states, and the NAIC Model Act specifies a "file and use" rating system. Furthermore, the Bureau rarely receives complaints from insureds regarding this line of insurance. The State Corporation Commission's Bureau of Insurance, therefore, recommends that mortgage guaranty insurance rates continue to be subject to Virginia's "file and use" rating laws.

APPENDIX A

VIRGINIA INSURANCE DEPARTMENT
1992 DETAIL BUSINESS IN THE STATE
LINE(S) OF BUSINESS: 06 - MORTGAGE GUARANTY

ZERO COMPANIES EXCLUDED

NAIC	COMPANY NAME	DOM	DIRECT PREMIUMS WRITTEN	DIRECT PREMIUMS EARNED	DIVIDENDS	DIRECT PREMIUMS UNEARNED	DIRECT LOSSES PAID	DIRECT LOSSES INCURRED	DIRECT LOSSES UNPAID	NET PREMIU
38458	GENERAL ELECTRIC MORTGAGE INS CORP	NC	26,696,031	24,358,007	0	8,947,064	9,296,871	27,416,037	38,142,639	26,696,0
27251	PMI MORTGAGE INS CO	AZ	13,308,740	11,573,380	0	9,078,153	1,196,185	2,862,240	4,360,089	13,308,7
29858	MORTGAGE GUARANTY INS CORP	WI	9,754,740	9,087,572	0	6,893,800	1,753,742	7,062,648	23,396,138	9,754,7
28452	REPUBLIC MORTGAGE INS CO	NC	7,510,543	6,544,913	0	4,218,084	1,163,473	886,379	4,504,456	7,510,5
15873	UNITED GTY RESIDENTIAL INS CO	NC	6,953,658	6,449,914	0	3,876,275	1,509,222	2,854,163	4,136,462	6,953,6
33790	COMMONWEALTH MORTGAGE ASSURANCE CO	PA	2,209,315	2,073,874	0	1,217,526	405,310	680,060	949,414	2,209,3
29823	GE RESIDENTIAL MORTGAGE INS CORP NC	NC	918,905	1,130,283	0	370,076	659,001	52,827	1,096,355	918,9
28916	HOME GUARANTY INS CORP	VA	841,733	1,119,961	0	496,370	339,300	147,109	1,047,836	841,7
18759	VEREX ASSURANCE INC	WI	639,905	797,967	0	372,025	1,980,431	143,031	953,300	639,9
24350	TRIAD GUARANTY INS CORP	IL	617,243	420,166	0	396,715	31,302	117,465	99,241	617,24
16675	GEN ELEC MORTGAGE INS CORP OF NC	NC	255,702	304,745	0	130,743	59,278	41,148	195,423	255,7
16667	UNITED GTY RESIDENTIAL INS CO OF NC	NC	241,020	191,214	0	244,243	38,080	-35,101	58,052	241,02
40266	CMG MORTGAGE INS CO	IL	109,498	149,042	0	55,198	11,334	-24,103	128,673	109,49
16659	UNITED GUARANTY COML INS CO OF NC	NC	3,424	14,959	0	3,696	0	0	0	3,42
26786	WMAC CREDIT INS CORP	WI	1,138	1,490	0	701	0	-1,933	798	1,13
41432	GEN ELEC HOME EQUITY INS CORP OF NC	NC	285	285	0	118	0	0	0	28
29688	PMI INS CO	CA	167	1,222	0	365	0	-2,023	4,833	16
26948	GENERAL ELECTRIC MORTGAGE CO OF CA	CA	138	140	0	63	0	0	0	13
29114	INVESTORS EQUITY INS CO	CA	11	381	0	10	0	0	0	1
18732	COMMERCIAL LOAN INS CORP	WI	0	3,023	0	4,805	0	0	0	[illegible]
26999	UNITED GUARANTY COMMERCIAL INS CO	NC	0	24,986	0	14,559	306,131	354,708	377,229	[illegible]
21 COMPANIES IN REPORT			70,062,196	64,247,524	0	36,320,589	18,749,660	42,554,655	79,450,938	70,062,19

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*** END OF REPORT ***

05/09/94

VIRGINIA INSURANCE DEPARTMENT
1993 DETAIL BUSINESS IN THE STATE

LICENSED
COMPANIES
ZERO COMPANIES EXCLUDED

LINE(S) OF BUSINESS: 06 - MORTGAGE GUARANTY

NAIC CODE	COMPANY NAME	DOM	DIRECT PREMIUMS WRITTEN	DIRECT PREMIUMS EARNED	DIVIDENDS	DIRECT PREMIUMS UNEARNED	DIRECT LOSSES PAID	DIRECT LOSSES INCURRED	DIRECT LOSSES UNPAID	NET PREMIUMS
38458	GENERAL ELECTRIC MORTGAGE INS CORP	NC	33,155,599	31,683,773	0	10,616,515	38,215,793	56,146,295	56,073,141	33,155,599
27251	PMI MORTGAGE INS CO	AZ	16,301,946	15,267,540	0	10,112,559	2,587,922	3,885,535	5,657,702	16,301,946
29858	MORTGAGE GUARANTY INS CORP	WI	11,315,483	10,932,440	0	7,276,843	1,901,433	7,834,563	29,329,268	11,315,483
28452	REPUBLIC MORTGAGE INS CO	NC	9,568,147	8,698,577	0	5,087,654	1,135,448	1,378,275	4,747,282	9,568,147
15873	UNITED GTY RESIDENTIAL INS CO	NC	7,590,724	7,144,653	0	4,322,346	3,243,287	5,315,984	6,209,159	7,590,724
33790	COMMONWEALTH MORTGAGE ASSURANCE CO	PA	2,375,363	2,195,779	0	1,450,450	693,253	457,396	713,557	2,375,363
24350	TRIAD GUARANTY INS CORP	IL	891,698	741,291	0	547,121	44,998	72,626	126,869	891,698
28916	HOME GUARANTY INS CORP	VA	676,120	802,336	0	370,154	720,237	559,838	887,437	676,120
29823	GE RESIDENTIAL MORTGAGE INS CORP NC	NC	512,499	687,515	0	195,076	412,892	-40,929	642,534	512,499
18759	VEREX ASSURANCE INC	WI	370,992	551,443	0	191,574	903,251	450,193	501,762	370,992
16675	GEN ELEC MORTGAGE INS CORP OF NC	NC	158,710	206,472	0	82,976	79,234	-29,355	86,834	158,710
40266	INVESTORS MORTGAGE INS CO	IL	41,044	94,297	0	1,945	33,777	-35,481	59,414	41,044
16659	UNITED GUARANTY COML INS CO OF NC	NC	3,394	3,696	0	3,394	0	0	0	3,394
18732	COMMERCIAL LOAN INS CORP	WI	2,681	5,372	0	2,114	0	0	0	2,681
29114	INVESTORS EQUITY INS CO	CA	119	33	0	96	0	0	0	119
41432	GEN ELEC HOME EQUITY INS CORP OF NC	NC	64	138	0	43	0	0	0	64
29688	PMI INS CO	CA	23	330	0	58	0	-4,833	0	23
26999	UNITED GUARANTY COMMERCIAL INS CO	NC	0	6,130	0	8,429	118,585	-18,788	239,856	0
	18 COMPANIES IN REPORT		82,964,606	79,021,815	0	40,269,347	50,090,110	75,971,319	105,274,815	82,964,606

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*** END OF REPORT ***

APPENDIX B

VIRGINIA MORTGAGE GUARANTY INSURANCE
RATES OF RETURN ON SURPLUS
(VIRGINIA DIRECT BUSINESS)

(1)	(2)	(3)	(4)	(5)	(6)
NAIC #	Company	Market Share	Va. Direct Premiums Written	Return on Surplus	Weighted Average ROS a/
	1992				
38458	General Electric Mortgage Insurance Co.	38.1%	26,696,031	-2.7%	-1.1%
27251	PMI Mortgage Insurance Co.	19.0%	13,308,740	41.5%	8.2%
29858	Mortgage Guaranty Insurance Corp.	13.9%	9,754,740	22.3%	3.2%
28452	Republic Mortgage Insurance Co.	10.7%	7,510,543	59.6%	6.7%
15873	United Guaranty Residential Insurance Co.	9.9%	$6,953,658	23.9%	2.5%
33790	Commonwealth Mortgage Assurance Co.	3.2%	2,209,315	13.8%	0.5%
24350	Triad Guaranty Insurance Corp.	0.9%	617,243	9.4%	0.1%
	All Other	4.3%	3,011,926	--	--
	Total	100.0%	70,062,196	--	20.1%
	7 Company Aggregate b/		$67,050,270		19.0%
	1993				
38458	General Electric Mortgage Insurance Co.	40.0%	33,155,599	-58.3%	-23.8%
27251	PMI Mortgage Insurance Co.	19.6%	16,301,946	79.6%	16.0%
29858	Mortgage Guaranty Insurance Corp.	13.6%	11,315,483	28.5%	4.0%
28452	Republic Mortgage Insurance Co.	11.5%	9,568,147	69.2%	8.2%
15873	United Guaranty Residential Insurance Co.	9.1%	7,590,724	7.7%	0.7%
33790	Commonwealth Mortgage Assurance Co.	2.9%	2,375,363	21.4%	0.6%
24350	Triad Guaranty Insurance Corp.	1.1%	891,698	9.6%	0.1%
	All Other	2.1%	1,765,646	--	--
	Total	100.0%	82,964,606	--	5.8%
	7 Company Aggregate b/		$81,198,960		2.3%
	2-Year Average:				
	Weighted Average				12.9%
	7 Company Aggregate b/				10.7%

a/ Weighted Average based on Direct Premiums Written.

b/ 7 companies premiums, expenses, and surplus summed.