Private Mortgage Insurer Eligibility Requirements Frequently Asked Questions[1]

September 27, 2018

Q1. What is private mortgage insurance?

Private mortgage insurance protects a lender against loss if the borrower defaults on his or her mortgage loan. Private mortgage insurance premiums may be paid by the borrower, the lender or an investor.

Q2. How is mortgage insurance related to the business of Fannie Mae?

When Fannie Mae purchases single-family mortgage loans where the outstanding principal balance of the mortgage exceeds 80 percent of the value of the property securing the mortgage (*i.e.,* a loan-to-value (LTV) ratio is greater than 80 percent), its charter requires an acceptable form of credit enhancement for the mortgage. Mortgage insurance is one of three forms of acceptable credit enhancement.

Q3. What is Fannie Mae announcing today?

Fannie Mae is announcing an update of its Private Mortgage Insurer Eligibility Requirements (PMIERs). Fannie Mae last updated its PMIERs in December 2015.

Q4. Why did Fannie Mae update the PMIERs?

In order to better manage the counterparty risk underlying the important role that mortgage insurers play in high-LTV lending, the PMIERs are designed to cover minimum financial and operational requirements for private mortgage insurers approved to do business with Fannie Mae and selected by lenders (i.e., Approved Insurers). Fannie Mae updated these requirements to incorporate changes related to our assessment of credit and counterparty risk. The revised financial requirements include changes to the risk-based asset requirements, enhancements to the treatment of approved risk transfer transactions, and adjustments to risk transfer credit arising from counterparty risk associated with reinsurance transactions.

When the updated PMIERs become effective on March 31, 2019, more than three years will have passed since the PMIERs were last updated in December 2015. During that time, new issues have emerged compelling clarification, enhancement, or strengthening of the PMIERs. Many of the changes contained in this update were previously announced via PMIERs Guidance.

Q5. To whom do the updated PMIERs apply?

The updated PMIERs set the standards and guidelines that a private mortgage insurer must meet and maintain to be an Approved Insurer eligible to write mortgage insurance selected by a mortgage enterprise on loans acquired by Fannie Mae.

[1] These Frequently Asked Questions are intended to highlight particular provisions of the PMIERs. In the event of any inconsistency or question of interpretation, the PMIERs shall govern and be considered the authoritative statement.

Q6. How were the updated PMIERs developed?

Fannie Mae and Freddie Mac developed the updated PMIERs under FHFA's oversight. During this process, Fannie Mae, Freddie Mac, and FHFA consulted with private mortgage insurers that currently are approved to do business with Fannie Mae and Freddie Mac, as well as with state insurance commissioners.

Q7. How do the updated PMIERs differ from the PMIERs published in December 2015?

The following is a summary of the key changes incorporated in the updated PMIERs: [2]

PMIERs Guidance

- Incorporated all changes previously issued in PMIERs Guidance documents 2018-01, 2017-01, 2016-02 and 2016-01.

Minimum Required Assets

- Added a new multiplier for non-performing loans backed by a property in a FEMA Declared Major Disaster Area, see Exhibit A, Table 8 for conditions.
- Included credit for primary MI coverage in calculating the Required Asset Amount for pool insurance risk.

Available Assets

- Eliminated the legacy premium credit.
- Established a limit for surplus note proceeds that may be included in Available Assets.
- Include Uncollected Premium net of ceded reinsurance premium.
- *Excluded amounts for debt, pledged collateral and funds held for the benefit of a reinsurer in calculating Available Assets.
- *Include the surrender value of Corporate Owned Life Insurance policy, subject to conditions.

Reinsurance Counterparty Risk

- Revised reinsurance collateral framework and introduced counterparty haircuts.

Quality Control (QC)

- *Requires re-verification and review of closing documents on all post-closing QC reviews.
- *Clarifies that post-closing QC random sample selection must represent the Approved Insurer's entire portfolio.
- *Clarifies that only significant defects must be reported to Fannie Mae for post-closing QC reviews.

Underwriting

- *Clarifies that automated tools are permitted for use by Approved Insurers to determine eligibility, perform QC or undertake independent validation.

[2] Asterisks (*) denote changes that were incorporated from previously issued Guidance letters.

Master Policies and Claims Timelines

- Incorporates by reference rescission relief principles as part of master policy requirements and as a PMIERs exhibit.
- *Clarifies rescission relief and independent validation must be performed in accordance with Fannie Mae's Rescission Relief Principles.
- Recognizes situations where claim settlement timelines may be exceeded.

PMIERs Exhibits and Glossary

- Revised Exhibits A, C, D, and F to incorporate changes to updated PMIERs.
- Added the Rescission Relief Principles as Exhibit G.
- Added several new defined terms in support of the updated PMIERs.

Q8. Why don't the updated PMIERs give credit for future premium income?

Future premiums are not included as capital under state insurance regulations nor are they included as capital under statutory accounting guidelines. If the updated PMIERs were to include future premiums in Available Assets while state regulators did not include future premiums in statutory capital, Fannie Mae could be exposed to the risk of statutory insolvencies and deferred payment obligations.

Although premium income is now not included in Available Assets, it is available to cover dividend payments to shareholders and ongoing operating expenses. More importantly, because the Available Assets calculation does not include a specific charge for a going concern, premium income provides an additional cushion to continue operating in times of stress when the ability to raise capital is compromised, thus permitting Available Assets to be dedicated to pay claims.

Q9. What are the Effective Date and the timeline for implementation of the PMIERs?

The updated PMIERs will become effective on March 31, 2019 (the Effective Date) for existing approved private mortgage insurers.[3] The updated PMIERs are effective immediately for any new mortgage insurer applying to do business with Fannie Mae.

Approved Insurers must certify by April 15, 2020, that as of December 31, 2019 they were in compliance with the updated PMIERs. Approved Insurers must certify by April 15, 2019 that, as of December 31, 2018 they were in compliance with the PMIERs in effect as of December 2018.

Q10. What happens if an approved private mortgage insurer does not meet the updated PMIERs requirements by the Effective Date?

An approved private mortgage insurer unable to certify that it meets the financial and non-financial requirements of the updated PMIERs by the Effective Date will be subject to the remediation actions outlined in Section 901 of the updated PMIERs.

[3] An Approved Insurer must meet all the updated PMIERs on the Effective Date of March 31, 2019. Compliance as of the effective date with the financial requirements will be determined based upon the Approved Insurer's financial statements and book of business as of March 31, 2019, and thereafter based upon the most recent quarter-end financial statements and book of business.

Q11. Under what authority has Fannie Mae taken this action?

Fannie Mae's charter act permits it to determine whether a private mortgage insurer is qualified to insure loans acquired by Fannie Mae. Fannie Mae last updated its PMIERs in December 2015, but additional revisions to the PMIERs have been issued since then in the form of Guidance Letters.

Q12. Do the updated PMIERs affect the ability of state insurance regulators to regulate private mortgage insurers?

No. The insurance commissioner for the state in which the private mortgage insurer is domiciled, as well as states where the mortgage insurer is licensed to do business, regulate mortgage insurers. The updated PMIERs are designed to allow Fannie Mae to manage its counterparty relationships with its approved private mortgage insurers effectively and consistently, while reducing taxpayer risk exposure. The updated PMIERs do not limit or affect the ability of a state insurance commissioner to regulate Approved Insurers licensed in its state. The updated PMIERs do not displace state laws and regulations.

Q13. What is the expected impact of the PMIERs on consumers?

The updated PMIERs are designed to further reduce counterparty risk by strengthening the role of Approved Insurers. Strong mortgage insurer counterparties increase the capacity for Fannie Mae to serve borrowers with down payments of less than 20 percent. FHFA, Fannie Mae, and Freddie Mac have attempted to strike a balance between building a stronger mortgage market by reducing risks to taxpayers and maximizing the opportunities for consumers.

Q14. When will PMIERs be updated next?

The timing of the next revision of the PMIERs has not been determined. However, Fannie Mae and Freddie Mac, under the oversight of FHFA, may modify or amend the PMIERs on an as needed basis. These changes typically would be communicated through the issuance of a PMIERs Guidance document. For changes to the Required Asset Tables, Fannie Mae and Freddie Mac will generally provide the Approved Insurers with written notice of 180 days prior to the effective date.

There may be potential future implications for PMIERs based upon feedback FHFA receives on its proposed rule on Enterprise Capital.