FINAL BILL REPORT
SHB 2611

C 255 L 98

Synopsis as Enacted

Brief Description: Regulating mortgage insurance.

Sponsors: By House Committee on Financial Institutions & Insurance (originally sponsored by Representatives Keiser, Wolfe, Benson, Gardner and Dickerson).

House Committee on Financial Institutions & Insurance
Senate Committee on Financial Institutions, Insurance & Housing

Background: Mortgage insurance, or mortgage guarantee insurance, is insurance that protects the lender if the borrower defaults. Generally, the insurance is required when the loan-to-value (LTV) ratio exceeds 80 percent; the insurance brings the lender's exposure down to at least an 80 percent LTV. The borrower pays for this insurance.

Most mortgage lending, especially first mortgages, follows standards established by the secondary market, which is comprised primarily of federal agencies such as FHA, FNMA, and Freddie Mac. Typical underwriting requirements by the secondary market mandate mortgage insurance when the LTV is above 80 percent. Generally, this insurance must be maintained for at least two years and until the LTV is at or below 80 percent. Depending on the federal secondary market institution policy or the loan agreement, a borrower may be able to cancel mortgage insurance when the LTV falls below 80 percent; the lender often requires proof, such as an appraisal.

Federal Truth-in-Lending law (TIL) requires disclosure of mortgage insurance on the TIL disclosure. The lender should disclose the insurer as one of several third parties who provide services related to the loan (such as title insurance, the appraisal, and the credit report, etc.).

Summary: For loans made on or after July 1, 1998, if mortgage insurance is required, the lender must disclose to the borrower whether and under what conditions the mortgage insurance can be canceled. For existing loans with mortgage insurance, and for loans with mortgage insurance entered into on or after July 1, 1998, the lender or loan servicer must annually disclose to the borrower whether and under what circumstances the mortgage insurance can be canceled. Information necessary to cancel the mortgage insurance must also be supplied. These provisions do not apply to mortgages funded with bond proceeds or made through the Federal Housing Administration or the Veterans Administration. Penalties for violating these provisions are provided.

For loans with mortgage insurance entered into on or after July 1, 1998, except when a federal statute or a rule or guideline of a federal secondary market organization prohibits cancellation of mortgage insurance, the lender may not collect and the borrower does not have to pay mortgage insurance after all the following occur: (1) The borrower makes a written request to cancel the mortgage insurance; (2) the residential loan is at least 2 years old; (3) the outstanding principal balance is not over 80 percent of the property value (the lender may require a current appraisal, splitting the cost with the borrower); and (4) the borrower is current on his or her payments and has made payments in a timely manner. This provision does not apply to mortgages funded with bond proceeds or where federal statute, rule, or guideline prohibits canceling mortgage insurance. Lenders or loan servicers must comply with these requirements if they follow secondary market standards.

Compliance with federal law regarding requiring mortgage insurance or notifications, disclosures, or cancellations of mortgage insurance is deemed in compliance with similar state law provisions.

For loans made on or after July 1, 1998, mortgage insurance cannot be required if the loan-to-value (LTV) ratio is below 80 percent , except that for large non-standard loans the lender and borrower may agree to mortgage insurance even if the LTV ratio is below 80 percent.

Votes on Final Passage:

House	96	0	
Senate	46	0	(Senate amended)
House	96	0	(House concurred)

Effective: July 1, 1998