

# HOUSE BILL ANALYSIS

## HB 2611

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**Title:** An act relating to mortgage insurance.

**Brief Description:** Regulating mortgage insurance.

**Sponsors:** Representatives Keiser, Wolfe, Benson, Gardner and Dickerson.

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### **HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE**

**Meeting Date:** January 28, 1998

**Bill Analysis Prepared by:** Charlie Gavigan, Counsel (786-7340)

**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, Freddie Mac, etc. Typical underwriting requirements by the secondary market require mortgage guarantee insurance when the LTV is above 80 percent. Generally, this insurance must be maintained for at least two years and until the LTV is 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 guarantee 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, the credit report, etc.).*

**Summary of Bill:** On loans made 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 made 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 cannot 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 two years old; (3) the outstanding principal balance is less than 80 percent of the lesser of the purchase price or appraised value at the time the purchase money mortgage was made or the balance is less than 80 percent of the appraised value for non-purchase money loans (the lender can require a current appraisal and splits 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 does not apply to mortgages funded with bond proceeds or where federal statute, rule, or guideline prohibits canceling mortgage insurance. Lenders or loan servicers comply with these requirements if they follow secondary market standards.

For loan mortgages made on or after July 1, 1998, mortgage insurance cannot be required if the loan-to-value ratio is below 80 percent.

***Appropriation:*** None.

***Fiscal Note:*** Not requested.

***Effective Date:*** July 1, 1998.

***Rulemaking Authority:*** None Specified.