NCSHA 2015 Annual Awards Entry Form

(Complete one form for each entry)

Deadline: Wednesday, June 10, 2015

Visit ncsha.org/awards to view the Annual Awards Call for Entries.

Instructions: Type entry information into the form and save it as a PDF. Do not write on or scan the form. If you have any questions contact Matt Cunningham at mcunningham@ncsha.org or 202-624-5424.

Fill out the entry name *exactly* as you want it listed in the program.

Entry Name: Property and Casualty Insurance Companies Reinsure HFA Mortgage Insurance

HFA: MassHousing

Submission Contact: (Must be HFA Staff Member) Nancy McDonald **Email:** nmcdonald@masshousing.com

Please provide a 15-word (maximum) description of your nomination to appear on the NCSHA website.

MassHousing utilizes reinsurance to strengthen and enhance its mortgage insurance fund.

Use this header on the upper right corner of each page:

HFA: __________

Entry Name: __________

Select the appropriate subcategory of your entry and indicate if you are providing visual aids.

Communications	Homeownership	Legislative Advocacy	Management Innovation
○ Annual Report	○ Empowering New Buyers	○ Federal Advocacy	◉ Financial
○ Creative Media	○ Encouraging New Production	○ State Advocacy	○ Human Resources
○ Promotional Materials and Newsletters	○ Home Improvement and Rehabilitation		○ Operations
			○ Technology
Rental Housing	**Special Needs Housing**	**Special Achievement**	Are you providing visual aids?
○ Encouraging New Production	○ Combating Homelessness	○ Special Achievement	○ Yes
○ Multifamily Management	○ Housing for Persons with Special Needs		◉ No
○ Preservation and Rehabilitation			

MassHousing
Management Innovation – Financial
Property and Casualty Insurance Companies Reinsure HFA Mortgage Insurance

Background

Since the late 1980's there have been several state HFAs that have created mortgage insurance funds. But MassHousing is the only state sponsored mortgage insurance fund that has been in continuous operation for the past 27 years – writing new mortgage insurance, paying claims and recording positive earnings. In 2010, MassHousing's Mortgage Insurance Fund secured an A+ ratings equivalency from Standard and Poor's – a rating which still stands today.

When the Mortgage Insurance Fund of MassHousing was first created in 1988, it was in response to a crisis in the mortgage insurance industry that dramatically curtailed the availability of primary mortgage insurance for large segments of MassHousing's business (loans above 95%, condos above 90%, and 2-4 family properties). Without a mortgage insurance fund of its own, MassHousing would have seen a significant decline in the Agency's homeownership lending activity in mission targeted business segments.

A few years later, when the mortgage insurance industry once again tightened underwriting guidelines, increased insurance premiums and discontinued pool insurance, MassHousing's Mortgage Insurance Fund helped the Agency to continue to operate successfully.

Then, in the later part of the last decade, the mortgage insurance industry crisis reached its peak with three companies going out of business, and others having their credit ratings downgraded to below investment grade. This was an ominous time for mortgage insurance but MassHousing's Mortgage Insurance Fund survived and thrived.

The Challenge

In this way, MassHousing's Mortgage Insurance Fund has been a tremendous asset to the Agency for 27 years. It has given MassHousing the ability to create innovative mortgage products which benefit borrowers and also helped to advance the Agency's mission. But the reality is that Mortgage Insurance is a capital consumptive financial proposition. Rating Agencies generally hold HFAs to writing insurance net coverage on an insured loan, in a multiple greater than five times the capital held in reserve. For example, $1 million in capital would allow an HFA to write $5 million in insurance coverage. If the coverage were 20% of the face amount of the mortgage, this would allow the HFA to insure $25 million in mortgage loans with $1 million in reserves.

Reinsurance is an innovative way to leverage capital – and a strategy which MassHousing has employed with great success in its mortgage insurance business. By taking advantage of reinsurance, MassHousing shares its risk on a 90% shared basis with qualified reinsurers. In this way, MassHousing provides capital to insure 10% of the risk and the reinsurer provides reinsurance to cover the remaining 90% of the risk. In the example above, $1,000,000 in capital would allow MassHousing to write $5,000,000 in risk. The reinsurer would provide $45 million in reinsurance to allow for total insurance coverage of $50 million. With 20% coverage, $50 million in risk would translate into $250 million in insured loan balances. But the real financial benefit that comes to MassHousing through its utilization of reinsurance is in the form of the fee that the reinsurer pays MassHousing for the administration of the business. This fee has been as high as 20% of the total insurance premiums collected. As a practical matter, this means that MassHousing retains 30% of the premium for retaining just 10% of the risk and providing 10% of the required capital.

For a long time, MassHousing primarily utilized domestic mortgage insurance companies to provide reinsurance. This worked well from 2003 when the Agency wrote its first reinsurance agreement with MGIC, until 2009, when the mortgage crisis resulted in the radical downgrade of the credit ratings of MassHousing's reinsurance partners. At that time, the downgrades reduced the credit of reinsurance in MassHousing's capital calculations. Overnight MassHousing lost $1 billion in credit for reinsurance.

At that point, MassHousing utilized Fannie Mae's "No MI" product as a means of continuing to insure high LTV conventional loans without eating up capacity of the Mortgage Insurance Fund. In fact, in 2012 and 2013 MassHousing originated $2 billion in "No MI" business with Fannie Mae but eventually, increasing fees made this product infeasible.

MassHousing had sufficient capital to continue writing mortgage insurance without the need for reinsurance until 2013. But it became clear that reinsurance would again need to play a role in MassHousing's mortgage insurance funding; and it was during the process of issuing an RFP for reinsurance, that the Agency sought out other insurers in addition to its traditional private mortgage insurance partners.

Reinsurance Revisited

Eventually, MassHousing identified Willis Re, an internationally recognized property and casualty insurance reinsurance broker to help the Agency find a non-traditional mortgage insurance partner. Willis Re also introduced MassHousing to two international property and casualty insurance reinsurers, Everest Re and Partners Re who provided MassHousing with a high quality credit policy (A+ and AA respectively) under terms that were very attractive to the Agency. These new relationships were critically important as they provided MassHousing with additional insurance capacity to relieve its dependency on the Fannie Mae "No MI" product.

This was only the second time that Everest and the first time that Partners had branched out to reinsure mortgage insurance. Each expressed a belief that the performance record of

MassHousing's Mortgage Insurance Fund and its risk management experience were sufficient to provide their companies with a good opportunity to move into the U.S. mortgage insurance market. As a result of the Agency's early experience, Willis has now indicated a strong interest on the part of Partner's Everest, and other property and casualty reinsurers, to do business with other state HFAs wishing to adopt a similar arrangement to that of MassHousing.
The Mortgage Insurance Fund of MassHousing employs just five full-time staff that provide underwriting and quality control support for homeownership loan purchases as well as administrative support for mortgage insurance operations.

Strong Outcomes

This fiscal year, under the new reinsurance agreement, MassHousing's Mortgage Insurance Fund will insure over 2,000 loans for $500 million in insured loan balances. This unique reinsurance agreement has brought new financial resources (International Property and Casualty Re-Insurance Companies) to MassHousing from companies that had not done business with Housing Finance Agencies in the past. Their credit rating and financial strength has enabled the Mortgage Insurance Fund to aggressively support homeownership lending with a number of new programs that have made MassHousing's Home ownership lending programs even more competitive. As a result, MassHousing's conventional loan business remains strong. In fact, in the first quarter of Calendar Year 2015 MassHousing was Fannie Mae's number one lender for all of Massachusetts.

The unique character of the Mortgage Insurance Fund allows it to operate as an independent financially self-sufficient business line of MassHousing. The Mortgage Insurance Fund has generated a profit as an insurance fund for 26 consecutive years. Its accumulated retained earnings over that period are almost $70 million.

MassHousing's evolving use of reinsurance is just one way that the Agency has helped to maintain the strength of the Agency's Mortgage Insurance Fund specifically and its homeownership lending generally.