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TESTIMONY

OF

NATIONAL ASSOCIATION OF REALTORS®

SUBMITTED TO
THE
COMMITTEE ON BANKING AND FINANCIAL SERVICES
OF THE
UNITED STATES HOUSE OF REPRESENTATIVES

CONCERNING
H.R. 607, THE "HOMEOWNER'S INSURANCE PROTECTION ACT"

March 17, 1997

NATIONAL ASSOCIATION OF REALTORS®
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TESTIMONY OF THE NATIONAL ASSOCIATION OF REALTORS®
H.R. 607, THE "HOMEOWNERS INSURANCE PROTECTION ACT"
SUBMITTED FOR THE RECORD

The National Association of **REALTORS®** is pleased to present our views concerning H.R.607, the "Homeowner's Insurance Protection Act." Our association represents nearly 730,000 real estate professionals involved in all aspects of the industry. REALTORS® practicing as real estate brokers and agents are especially attuned to consumer concerns in the mortgage finance transaction. In many instances, REALTORS® are the individuals home owners turn to for advice and guidance after the purchase of a home. This proposed legislation to protect home owners from paying unnecessary private mortgage insurance (PMI) is an important consumer issue that deserves to be addressed forthrightly.

REALTORS® believe that private mortgage insurance clearly serves a useful purpose. More than half of all home buyers who make down payments of less than 20 percent carry private mortgage insurance, while the remainder of the market is served by government housing finance programs. PMI protects lenders against loan defaults and helps to make mortgage financing more accessible to home buyers with smaller down payments. Generally, private mortgage insurance is required for loans covering more than 80 percent of the home value. However, once a home owner's equity exceeds 20 percent, we believe that PMI insurance is no longer needed. There is no benefit to the home owner from these extra mortgage insurance payments.

REALTOR® Position

The National Association of **REALTORS®** strongly supports the intent of H.R. 607. **REALTORS®** policy supports the disclosure of the private mortgage insurance carrier at settlement, any conditions for cancellation of such insurance, and subsequent written notification to the borrower regarding the right to and conditions for PMI cancellation.

Although H.R. 607 does not explicitly call for it, **REALTORS®** believe that the private mortgage insurer should be disclosed to the home buyer at settlement, despite the fact that a mortgage insurer's client is the lender, not the home buyer. Home buyers pay the mortgage insurance premium. The private mortgage insurance carrier's identity is important information for the home owner to know up front and the disclosure of this information, while it may not be immediately relevant to the home owner, takes on immediacy and relevance with the transfer of mortgage servicing, when a home owner may encounter difficulties affecting repayment of the mortgage loan, or be subject to other situations over time that can make this single bit of information critical in negotiations with a mortgage lender.

Unnecessary Costs

It is estimated that millions of American home owners are paying for unneeded private mortgage insurance. The proposed legislation should help stop this unnecessary drain on home owners' pocketbooks. We support the objectives of Rep. Jim Hansen's and Sen. Al D'Amato's bills in their effort to save home owners nationwide hundreds of millions of dollars a year by empowering them with the right to cancel their private mortgage insurance when it is no longer needed.

At the very least, home owners should be notified when they have paid off 20 percent of their mortgage loan. They deserve the right to stop making these insurance payments at that point. Home buyers and home owners have plenty of legitimate expenses without being saddled with costs that give them no benefit.

Increased Loan Servicing Costs

We anticipate that H.R. 607 could engender concerns about additional loan servicing costs associated with annual written notification and tracking the build up of home owner equity. While we do not dismiss these potential concerns out of hand, we believe that competent loan servicers should already have in place technical and human resources to respond to this challenge. Mortgage principal balances, escrow accounting, real estate tax disclosures are all part of a year end statement that lenders make to their customers for federal income tax reporting purposes through the Form 1099 and escrow analysis required by Federal statutes. It is difficult for us to imagine that lenders are not adaptive enough to positively respond to the disclosure requirements of H.R. 607. Further, it is appropriate that home owners not incur and costs associated with their notification by the loan servicer of the options to cancel unnecessary PMI.

Benefits of Disclosure

We believe that there is a win/win opportunity provided in this bill's proposals. Looked at solely from a customer relations viewpoint, mortgage lenders can make a giant step forward in shoring up their relationships with home buyers. For the real estate agent disclosure of private mortgage insurance is an important piece of information that every home owner should know.

For **REALTORS®** disclosure of pertinent information affecting the terms of a mortgage loan, conditions of home ownership, and repayment of the mortgage obligation to the consumer is a key principle that we use daily. We believe that well-informed home sellers and home buyers, fully cognizant of their obligations and rights, should be critical to any mortgage finance transaction. The relationship that develops between a REALTOR®, a home buyer and a home seller, is often unique. The most successful are those that result in repeat clients. We think that this is a principle central to any business that relies on customer service and consumer satisfaction.

Short-Payoff Sales

An example of how PMI disclosure can benefit mortgage insurers, lenders, and home owners is the situation involving short-payoff sales. Since regional economic conditions in some real estate markets can cause declines in property values, the occurrence of short pay property sales may become necessary to facilitate real estate sales. Short-payoff sales occur when lenders agree to the sale of a property for a price below the amount needed to fully pay the outstanding mortgage. Short-payoff sales typically occur when home owners experience financial difficulties and need to sell their home, but their property value declines below the amount of the original mortgage. Lenders often accept the short-payoff in an effort to avoid the expense and potential problems associated with foreclosure.

REALTORS® experience difficulties in some markets when attempting to assist home sellers or home buyers negotiate with lenders in short-payoff situations. In these instances, the private mortgage insurer can be the consumer's ally in short-payoff situations because it is in the mortgage insurer's best interest, as well as the lender's, to avoid foreclosure. H.R. 607 could facilitate this process for **REALTORS®** and their clients through the disclosure of the mortgage insurer and the loan servicer, who when contacted directly to negotiate, could benefit from short pay sales.

We would propose, then, that **Section 2, Identifying Information** be amended to read:

> Such information as may be necessary to permit the consumer to communicate with the creditor, *any subsequent servicer of the mortgage*, **and the insurer of the private mortgage insurance** concerning the insurance.

Other Issues

The failure of some lenders to facilitate private mortgage insurance cancellation gained some outraged responses through national television exposure as an example of 'the fleecing of America', to use one network's tag line. Syndicated columnist Ken Harney also called attention to the situation recently in at least two instances, and it was one of Mr. Haney's columns that called attention to anticipated policy changes at Fannie Mae affecting the cancellation of PMI.
An earlier Haney column specifically cited the proposals as important home owner and consumer-friendly legislation contemplated in the bill that became H.R. 607. H.R. 607 is clearly a step in the right direction to assure that home owners are aware of their rights to cancel PMI.

As deliberations proceed on PMI cancellation and notification proposals some critics may argue that H.R. 607 goes too far in requiring notification to all home owners of their mortgage insurance cancellation rights. We believe that universal notification is appropriate, because whether unintentional or not, lenders who retain unnecessary mortgage insurance premiums are doing the mortgage finance industry a disservice in the long run. Retaining or maintaining PMI beyond its usefulness to the home buyer is a practice that for the good of all those associated with home mortgage industry should be ended.

Original Value vs. Appraised Value

H.R. 607 does not propose automatic cancellation of PMI once the equity threshold on the original mortgage value is reached. There are clearly arguments that can be made for either using the original value or an appraised value where PMI cancellation is concerned. We point out, however, that when the home owner takes the initiative to exercise PMI cancellation rights reaching agreement on an acceptable appraised value with a lender tremendous frustration often follows for the home owner. It is in these instances when home owners are oftentimes thwarted by reticent lenders, who seek to continue receiving PMI premiums or to delay cancellation.

PMI cancellation should be easier for the consumer. Demands for redundant appraisals, which result in additional costs to the consumer, should not be permitted. Any appraisal by a licensed or certified appraiser should be honored by the lender and the PMI process should not be thwarted or delayed resulting from failure to reach agreement on appraised value or mortgage principal balance.

The following personal experience illustrates what many home owners oftentimes encounter:

On Tuesday, February 18, Michelle Meeks, a Michigan resident in the market for a new home, called the NATIONAL ASSOCIATION OF REALTORS® in response to our press release posted on NAR’s home page which praised Rep. Hansen and Senator D'Amato for introducing their PMI bills. Mrs. Meeks volunteered that she is having a very difficult time canceling her PMI, and she hopes Congress passes legislation that supports home owners’ efforts to cancel unneeded mortgage insurance. This is her story:

Early in 1996, Mrs. Meeks contacted her mortgage lender and requested that her PMI be canceled. She was told that she would have to obtain an appraisal of her home and the cancellation fee would be $250. When she questioned the $250 fee, the lender advised that both the appraisal and the fee were stipulated in her mortgage. Mrs. Meeks searched through her mortgage papers and found no such reference to either the fee or the appraisal, however she did not pursue the PMI cancellation further.

In February of this year, Mrs. Meeks resumed her pursuit of the PMI cancellation. Her mortgage had been sold to a different mortgage company. The new lender advised that canceling the PMI would require an appraisal that is no more than 6-months old and a cancellation fee of $50.

Because Mrs. Meeks had obtained a home equity loan in May of 1996, she had already paid $200 for an appraisal that is only nine months old. When pressed about the appraisal the lender responded that the appraisal must be no more than 6-months old because it is based on the “updates to your home”. The lender also stated that they “choose” to let the homeowner cancel the PMI, and they are not legally bound to inform the homeowner that the PMI can be canceled.
In order for Mrs. Meeks to cancel her PMI, she will have to pay for another appraisal plus the $50 cancellation fee. Her out-of-pocket cost will be at least $450.

Mrs. Meeks says, “ I know there are thousands more out there who either aren’t aware that their PMI can be canceled or are in the same situation as I am. Financial institutions are making major bucks off this.”

Conclusion

Private mortgage insurance is an important component in the American system of mortgage finance. This system, driven largely by the maturing secondary mortgage market, new technologies, and growing sophistication on the part of all parties in the mortgage lending process, continues to evolve. Six states -- California, Connecticut, Hawaii, Maryland, Minnesota, and New York require the cancellation of private mortgage insurance once a prescribed equity threshold is reached. The New Mexico state legislature is considering similar legislation this year. Indeed, Fannie Mae and Freddie Mac have guidelines for those lenders from whom they purchase loans that support the cancellation of private mortgage insurance on the homeowner's initiative, once the equity threshold is reached. But a surprising number of home owners are unaware of their rights and conditions under which they may cancel private mortgage insurance. The net result is home owners' excessive payment of PMI premiums in an alarming number of instances, once the equity threshold is attained on their mortgage. This is a situation that should end.

We commend Rep. Hansen and the co-sponsors of H.R. 607 for raising the public's and policy makers' awareness of this important issue and in giving momentum the process of lifting this unfair burden on America's home owners.

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Amortization Table

$100,000 Mortgage 7.5 % Interest Rate 30-Year Fixed Rate Monthly Payment $699.21

Mortgage Insurance Premium 1.1% Upfront, 0.49% Annual Renewal

Mortgage Insurance Coverage 25 %

Sales Price = $105, 263

Year	Annual Interest	Annual Principal	Outstanding Principal Balance (OPB)	Annual Mortgage Insurance	OPB / Origina[l] Mortgage Amount
1	$7,468.74	$921.83	$99,078.17	$485.48	9908.00
2	$7,397.18	$993.40	$98,084.77	$480.61	98.08
3	$7,320.06	$1,070.52	$97,014.25	$475.37	97.01
4	$7,236.95	$1,153.63	$95,860.62	$469.72	95.86
5	$7,147.39	$1,243.19	$94,617.44	$463.63	94.62
6	$7,050.88	$1,339.70	$93,277.74	$457.06	93.28
7	$6,946.87	$1,443.70	$91,834.04	$449.99	91.83
8	$6,834.79	$1,555.78	$90,278.26	$442.36	90.28
9	$6,714.02	$1,676.56	$88,601.70	$434.15	88.6
10	$6,583.86	$1,806.71	$86,794.99	$425.30	86.79
11	$6,443.60	$1,946.97	$84,848.01	$415.76	84.85
12	$6,292.45	$2,098.12	$82,749.89	$405.47	82.75
13	$6,129.57	$2,261.01	$80,488.89	$394.40	80.49
14	$5,954.04	$2,436.53	$78,052.35	$382.46 *	78.05
15	$5,764.89	$2,625.69	$75,426.67	$369.59 *	75.43
16	$5,561.05	$2,829.53	$72,597.14	$355.73 *	72.6
17	$5,341.38	$3,049.19	$69,547.95	$340.78 *	69.55
18	$5,104.67	$3,285.91	$66,262.04	$324.68 *	66.26
19	$4,849.57	$3,541.00	$62,721.04	$307.33 *	62.72
20	$4,574.68	$3,815.90	$58,905.15	$288.64 *	58.91
21	$4,278.44	$4,112.13	$54,793.01	$268.49 *	54.79
22	$3,959.20	$4,431.37	$50,361.64	$246.77 *	50.36
23	$3,615.18	$4,775.39	$45,586.25	$223.37 *	45.59
24	$3,244.46	$5,146.12	$40,440.14	$198.16 *	40.44

25	**$2,844.95**	**$5,545.62**	**$34,894.52**	**$170.98 ***	**34.89**
26	**$2,414.43**	**$5,976.14**	**$28,918.37**	**$141.70 ***	**28.92**
27	**$1,950.49**	**$6,440.09**	**$22,478.29**	**$110.14 ***	**22.48**
28	**$1,450.49**	**$6,940.05**	**$15,538.24**	**$76.14 ***	**15.54**
29	**$911.75**	**$7,478.82**	**$8,059.42**	**$39.49 ***	**8.06**
30	**$331.15**	**$8,059.42**	**$0.00**	**$0.00 ***	

* Presumes that MI is canceled when outstanding principal balance/original balance mortgage equals 80%. Lender policy may vary; cancellation dependent on contact between lender and lender.