Federal Housing Finance Agency
Office of Inspector General

2025 Update of Mortgage Insurers as Enterprise Counterparties

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.... EXECUTIVE SUMMARY.............................

Under their charters, Fannie Mae and Freddie Mac (the Enterprises) may only purchase conventional single-family residential mortgages with loan-to-value (LTV) ratios greater than 80 percent if these mortgages are supported by one of three credit enhancements. Mortgage insurance is the credit enhancement most often used for these Enterprise-purchased mortgages (Enterprise mortgages).

We published a white paper in February 2018 explaining the then-current and emerging risks for the Enterprises associated with private mortgage insurers. Three years later, in March 2021, we published an update on developments in the mortgage insurance industry and considered the economic environment during the COVID-19 pandemic.

Since we issued our 2021 white paper, the economic landscape has shifted in a number of ways. Amid higher interest rates and home prices, Enterprise mortgage acquisitions dropped significantly and recent acquisitions exhibit increased risk layering. Additionally, with rapidly increasing home prices, borrowers are more likely to request early cancellation of mortgage insurance, as LTV ratios fall below the required threshold.

Private mortgage insurers continue to account for the largest portion of the Enterprises' counterparty risk. As of year-end 2024, about $1.4 trillion of the Enterprises' single-family mortgage portfolios (portfolios) were covered by mortgage insurance. The share of the Enterprises' portfolios with mortgage insurance has remained stable—in 2021, the share was 20 percent, in 2024, it was 21 percent. We are issuing this white paper to provide an overview of key developments affecting the mortgage insurance industry since 2021 and to discuss how those changes affect risk to the Enterprises.

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ABBREVIATIONS

Arch	Arch Mortgage Insurance Company
DTI	Debt-to-income
Enterprises	Fannie Mae and Freddie Mac
FHFA or Agency	Federal Housing Finance Agency
LTV	Loan-to-value
OIG	Federal Housing Finance Agency Office of Inspector General
PMIERs	Private Mortgage Insurer Eligibility Requirements

BACKGROUND

Under their charters, the Enterprises may only purchase conventional single-family residential mortgages with LTV ratios greater than 80 percent if these mortgages are supported by one of three credit enhancements. Mortgage insurance is the credit enhancement most often used for these Enterprise mortgages. **Mortgage insurance** transfers a portion of a mortgage's risk of default to an insurer in exchange for a premium that is usually paid by the borrower.

Mortgage insurance protects the company that holds the mortgage from losses on the principal balance of the loan. It covers losses after the borrower defaults and title to the property is transferred, such as after a foreclosure, short-sale, or a deed-in-lieu of foreclosure.

Mortgage insurance is distinct from other types of insurance such as property insurance, which covers property damage from hazards or certain types of natural disasters, or title insurance, which covers defects in the title to a property.

Private mortgage insurers account for the largest portion of the Enterprises' counterparty risk.[1] Counterparty risk arises from the potential that mortgage insurers may fail to pay claims. Each Enterprise has a separate method for measuring risk. By Fannie Mae's measure, mortgage insurers accounted for 54 percent of its counterparty risk as of September 30, 2024. For Freddie Mac, it was 84 percent.

By year-end 2024, about $1.4 trillion of the Enterprises' portfolios were covered by mortgage insurance. The share of the Enterprises' portfolios with mortgage insurance has remained stable—in 2021, the share was 20 percent, in 2024, it was 21 percent.

We published a white paper in February 2018 explaining the then-current and emerging risks for the Enterprises associated with private mortgage insurers.[2] Three years later, in March 2021, we published an update on developments in the mortgage insurance industry and considered the economic environment during the COVID-19 pandemic.[3] Private mortgage insurers remain a crucial Enterprise counterparty, and the economic landscape has further evolved since the pandemic. We are issuing this white paper to provide an overview of key developments

[1] The mortgage insurers that provide insurance on mortgages that the Enterprises acquire are private companies. The mortgage market also includes government-insured or guaranteed mortgages through the Federal Housing Administration, the Department of Veterans Affairs, and the United States Department of Agriculture.

[2] OIG, *Enterprise Counterparties: Mortgage Insurers* (Feb. 16, 2018) (WPR-2018-002).

[3] OIG, *Update on Mortgage Insurers as Enterprise Counterparties* (Mar. 8, 2021) (WPR-2021-001).

affecting the mortgage insurance industry since 2021 and to discuss how those changes affect risk to the Enterprises.

A Recent History of Mortgage Insurers and the Enterprises

The modern private mortgage insurance industry dates to 1957. The industry grew through the mid-1980s, then contracted in the late 1980s following an economic recession. Private mortgage insurers soon recovered from the recession and experienced rapid growth through the mid-2000s.

A Recent History of Mortgage Insurers and the Enterprises

2007: The nationwide share of insured single-family mortgages backed by private mortgage insurers reaches 74 percent after **two decades of industry growth.**

2008: The **financial crisis** results in a sharp rise in defaults and foreclosures of single-family mortgages. **Mortgage insurers suffer significant losses and become financially weak.** Three of the eight Enterprise mortgage insurers are placed in "run-off" by their respective state regulators, which prevents them from issuing new mortgage insurance.

2009: **Credit ratings of all Enterprise mortgage insurers significantly decline.** Because many mortgage insurers did not have sufficient capital to withstand the crisis, some failed to fully pay their claims.

2010: **The nationwide share of insured single-family mortgages backed by private mortgage insurers contracts to 14 percent.** In the aftermath of the crisis, private mortgage insurers changed their pricing and eligibility standards on new higher LTV mortgages, causing FHA-insured loans to become the lower-cost or only option for such mortgages.

2012: In August, **FHFA directs the Enterprises to revise and align their mortgage insurer eligibility requirements.** The requirements should measure and ensure that approved mortgage insurers can withstand a financial crisis or severe downturn going forward.

2015: **The Enterprises issue aligned private mortgage insurer eligibility requirements (PMIERs).** The aligned PMIERs serve as the financial and operational standards that private mortgage insurance companies must meet to provide insurance on Enterprise mortgage loans. Prior to 2015, Fannie Mae and Freddie Mac each had a separate set of requirements.

2018: **FHFA directs the Enterprises to modify PMIERs** to address changes in Enterprise counterparty risk management as well as in the mortgage insurance industry and economy. The revision, known as PMIERs 2.0, becomes effective in March 2019.

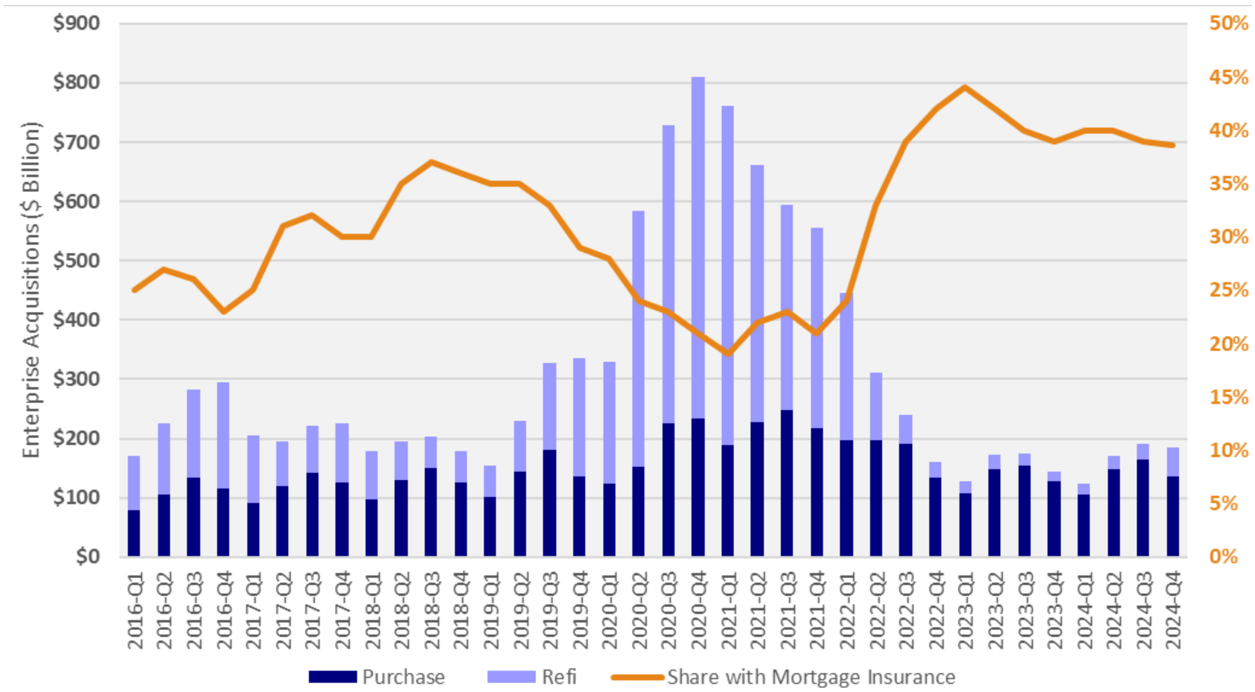
2019: The entire **mortgage insurance sector shifts to dynamic, risk-based pricing** that can be tailored to each loan. Risk-based pricing engines enable mortgage insurers to respond quickly to a changing market, providing an ability to manage risk in a way not previously possible.

2020: In March, the President declares the **COVID-19 pandemic** a national emergency. This is the **first significant challenge facing mortgage insurers since the financial crisis.** Enterprise analyses show mortgage insurers have sufficient capital to weather the crisis. **Despite the pandemic environment, Enterprise mortgage insurers issue record volume in 2020, primarily driven by refinancings.**

THE POST-PANDEMIC LANDSCAPE..

Since we issued our last white paper on Enterprise mortgage insurers, the economic landscape has shifted in a number of ways. Amid higher interest rates and home prices, there were fewer single-family mortgage originations, and Enterprise acquisitions dropped significantly. After peaking at over $800 billion dollars in the fourth quarter of 2020, Enterprise acquisitions declined by 84 percent to $124 billion in the first quarter of 2024. That was the lowest quarterly volume since at least the first quarter of 2016, as illustrated in Figure 1.

FIGURE 1. ENTERPRISE ACQUISITIONS AND SHARE WITH MORTGAGE INSURANCE



Source: OIG analysis of data from FHFA, Fannie Mae, and Freddie Mac.

Higher Interest Rates Shift Enterprise Acquisition Mix

Historically low interest rates spurred the surge in refinances in 2020 and 2021. Post-pandemic, in light of increasing interest rates, refinances declined at a higher rate than purchase mortgages. In March 2022, mortgage rates increased above 4 percent for the first time since mid-2019. As interest rates continued to rise, the mix of Enterprise acquisitions shifted from primarily refinances to primarily purchase mortgages.[4] When interest rates hovered around 3 percent in

[4] *See* OIG, [Enterprise Single-Family Mortgage Acquisition Mix](), at 2 (Sep. 11, 2024).

2020, purchase mortgages accounted for 30 percent of Enterprise acquisitions. In 2023, interest rates averaged 6.8 percent and purchase mortgages accounted for 87 percent.

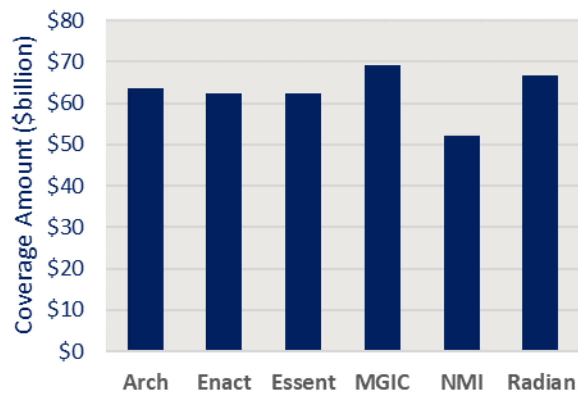
Purchase mortgages are more likely to use mortgage insurance than refinances. As illustrated in Figure 1 above, during the 2020 and 2021 pandemic refinance boom, the share of Enterprise acquisitions with private mortgage insurance hit an eight-year low of 19 percent. The share begins a steep increase in mid-2022. After reaching as high as 44 percent in the first quarter of 2023, the share of Enterprise acquisitions with mortgage insurance dropped to 39 percent in the fourth quarter of 2024, above pre-pandemic levels.[5]

RISK CONSIDERATIONS

The Private Mortgage Insurance Industry

The private mortgage insurance industry has inherent risk. As we discussed in our 2018 white paper, insurers are monoline businesses and therefore face risk due to a lack of diversification.[6] Additionally, there continue to be only six active mortgage insurers approved to provide coverage for Enterprise mortgages.[7] In November 2024, FHFA reported to OIG that concentration in the mortgage insurance industry remains high but stable. Concentration within the limited number of providers, however, has eased. In 2017, three insurers were responsible for providing roughly two-thirds of the mortgage insurance coverage for the Enterprises. As of year-end 2024, each insurer provided between 14 and 18 percent of the approximately $377 billion in mortgage insurance coverage for both Enterprises. See Figure 2.

FIGURE 2. ENTERPRISE MORTGAGE INSURANCE COVERAGE BY PROVIDER, AS OF YEAR-END 2024



Source: OIG analysis of Fannie Mae and Freddie Mac financial reports.

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[5] While the share of recent Enterprise acquisitions with mortgage insurance increased, the portion of the Enterprises' overall portfolios with mortgage insurance remained stable, at around 20 percent, as discussed earlier. This is because recent Enterprise acquisitions account for a relatively small portion of the Enterprises' portfolios. In the first three quarters of 2024, for example, the Enterprises acquired $486 billion in single-family mortgages, less than 1 percent of their $6.7 trillion combined portfolios.

[6] *See* OIG, *Enterprise Counterparties: Mortgage Insurers*, at 10 (Feb. 16, 2018) (WPR-2018-002).

[7] In May 2021, Genworth Mortgage Insurance Corporation rebranded itself as Enact Mortgage Insurance Corporation.

In June 2024, Arch Mortgage Insurance Company announced it acquired Republic Mortgage Insurance Company, a run-off mortgage insurance company.[8] Pursuant to Enterprise requirements, Fannie Mae and Freddie Mac each reviewed and ultimately approved the acquisition. The acquisition increased Arch's coverage of Enterprise loans by 0.1 percent. While concentration to Arch increased slightly, FHFA told OIG that Enterprise counterparty risk likely improved because coverage moved from a weaker to a stronger counterparty.

Mortgage Volume and Quality

As discussed in our 2021 report, Enterprise risk related to mortgage insurers is typically tied to volume. When volume decreases, risk theoretically decreases. The volume of Enterprise acquisitions with mortgage insurance has decreased in recent years, in line with the overall decline in Enterprise acquisitions. Even so, FHFA and the Enterprises previously cautioned that risk must also be considered against the quality of Enterprise acquisitions.

Purchase mortgages generally present more credit risk than refinances. The Enterprises use various measures to gauge credit risk and quality, including LTV ratio, credit score, and debt-to-income (DTI) ratio. As OIG recently reported, the trends for these individual risk factors have changed.[9] Over the last few years, LTV and DTI ratios in Enterprise acquisitions have increased, indicating higher risk; credit scores have also increased, indicating lower risk. Further, recent Enterprise acquisitions exhibit increased risk layers, that is, multiple higher risk factors. According to FHFA, risk layered loans expose the Enterprises to higher credit risk. Particularly, borrowers with higher DTI ratios combined with other risk factors are generally less able to meet payment requirements.

Financial Strength of Private Mortgage Insurers

Enterprise risk related to private mortgage insurers is dependent on the health of the economy interconnected with the financial strength of the insurance companies. If mortgage insurers do not have sufficient capital to weather economic stress, the Enterprises might eventually suffer losses.

The post-pandemic landscape has revealed further complexities in the relationship between mortgage volume, quality, and risk with regard to the financial strength of private mortgage insurers. Mortgage insurance companies earn income on outstanding insurance policies. A contracted mortgage market, like in the current environment, might harm mortgage insurance companies if existing policies roll off through prepayments or defaults, for example, and are not replaced. Despite the contracted mortgage market, Enterprise private mortgage insurers were

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[8] Insurers in run-off do not write new insurance but continue collecting renewal premiums and processing claims made under existing policies. *See* OIG, *Enterprise Counterparties: Mortgage Insurers*, at 7 (Feb. 16, 2018) (WPR-2018-002).

[9] OIG, *Enterprise Single-Family Mortgage Acquisition Mix*, at 3-6 (Sep. 11, 2024).

profitable in recent years. The Agency explained that mortgage insurers have emerged financially strong during the contracted mortgage market for various reasons, including:

- **Loan Persistency.** Though higher interest rates have depressed refinance activity (and mortgage originations in general), higher rates have also extended the life of loans, thereby extending the life of mortgage insurance policies. The portion of insurance policies that remains outstanding increased from around 60 percent during 2020 and 2021 to approximately 85 percent in 2024.

- **Excess Reserves.** The pandemic environment generated uncertainty in the mortgage market and expectations of a downturn. FHFA told us that mortgage insurers held excess financial reserves in anticipation of a recession and the associated mortgage defaults. However, the contracted mortgage market did not coincide with elevated defaults and mortgage insurance claim rates are below pre-COVID levels. This permitted mortgage insurers to release reserves.

- **Low Combined Ratios.** The "combined ratio" is the sum of a mortgage insurer's expense ratio and loss ratio. Mortgage insurers have been able to maintain low expenses and losses (claims) relative to the premiums earned. From 2019 to 2023, the aggregate combined ratio for the private mortgage insurance industry was about 28 percent, compared to 37 percent when factoring in earlier, pre-COVID years.

Still, home prices have increased rapidly since the pandemic. FHFA notes this rapid increase will eventually permit homeowners to request an appraisal and cancellation of mortgage insurance.[10] If mortgage originations remain low and increasing home prices allow for borrowers to cancel mortgage insurance, outstanding insurance policies would theoretically decline. This, in turn, would create less income for mortgage insurance companies. Nonetheless, by law, private mortgage insurers must maintain a contingency reserve. The purpose of the reserve is to protect against loss during periods of economic contraction. Therefore, according to FHFA, mortgage insurers should be able to weather an extended low origination, high-interest rate environment.

Credit ratings for all six active Enterprise mortgage insurers improved since our first report in 2018.[11] A credit rating agency reported in December 2024 that mortgage insurers are "well

[10] Generally, mortgage insurance automatically terminates when the borrower's principal balance is scheduled to reach 78 percent of the original value of the home. A borrower may request advanced cancellation of mortgage insurance when the borrower has accrued 20 or 25 percent equity, dictated by Enterprise requirements, based on an appraisal of the current value of the home.

[11] We reported in 2021 that before the financial crisis, a minimum credit rating was part of the criteria the Enterprises used to approve mortgage insurers. PMIERs now drive eligibility standards instead of ratings.

positioned to maintain stability in the event that a less favorable economic environment materializes in 2025."

Eligibility Requirements

The Enterprises manage counterparty risk related to private mortgage insurers with the financial requirements framework of PMIERs. The Enterprises have periodically reviewed and updated PMIERs since they first issued the aligned standards in 2015. In August 2024, FHFA announced the latest PMIERs update.

Among other things, PMIERs sets a minimum level of available assets, or PMIERs financial requirements, for private mortgage insurers to do business with the Enterprises. The latest update includes a tightening of assets that can be counted toward PMIERs requirements. FHFA told us there was nothing specific that prompted the recent update. The Agency noted it was a good time to tighten the requirements without disrupting the market. As former FHFA Director Sandra Thompson stated in the August 2024 announcement, "These updates represent an ongoing commitment to the safety and soundness of the Enterprises, ensuring that their private mortgage insurer counterparties have the necessary financial strength to pay claims in a wide range of economic environments."

The updated standards will be implemented through a two-year phased-in approach and become fully effective on September 30, 2026. According to an internal Enterprise analysis, if the updated standards were effective immediately, mortgage insurers would still have a large surplus of available assets. Similarly, FHFA told us in November 2024 that the Agency had no concerns about any mortgage insurer's ability to meet the updated standards.

Enterprise Mortgage Insurance Pilots

Between 2018 and 2021, Fannie Mae and Freddie Mac each ran a relatively small pilot program in which the Enterprise effectively purchased mortgage insurance directly from a panel of reinsurers. When we reported on the pilots in our 2021 update, Freddie Mac informed us that its pilot was an effort to reduce concentration risk from mortgage insurers, among other things. Concentration risk was not a primary focus of Fannie Mae's pilot at the time. FHFA recently clarified to OIG that the primary focus of both pilots was to address concerns stemming from the 2008 financial crisis—specifically, mortgage insurers' ability and willingness to pay claims. According to Enterprise surveys of lenders that participated in the pilots, the Enterprise mortgage insurance products increased operational efficiencies and lowered borrower costs.

Both Enterprise programs expired on June 30, 2021, after our last update report.

CONCLUSION

Mortgage insurers are crucial to Enterprise business as they account for the largest portion of Enterprise counterparty risk. If mortgage insurers cannot withstand economic stress, the Enterprises might suffer losses.

The post-pandemic landscape yielded a contracted mortgage market that is expected to continue for some time. Yet, Enterprise mortgage insurers remain financially strong. Nonetheless, recent Enterprise acquisitions exhibit increased risk layering, thereby increasing the risk of default, and the rate of home price growth threatens borrower cancellations of mortgage insurance. But, according to FHFA and Enterprise assessments, mortgage insurers are financially well-positioned to meet the new PMIERs and to weather an extended period of low originations, high interest rates, and home-price growth. Given the significance of mortgage insurance for Enterprise loans and the evolving economic environment, mortgage insurers are likely to continue as key Enterprise counterparties with attendant risks.

OBJECTIVE, SCOPE, AND METHODOLOGY ....

The objective of this white paper was to provide updated information on the mortgage insurance industry and how developments since 2021 have affected risks to the Enterprises. To achieve this objective, we reviewed internal FHFA and Enterprise documents as well as publicly available documents. We also interviewed FHFA officials and obtained written Agency responses to our inquiries.

Federal Housing Finance Agency
Office of Inspector General

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