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## **National MI Targets 2013 to Start Writing Business on Built-From-Scratch System**

Officials at National Mortgage Insurance say a state-of-the-art business platform and a somewhat old-school approach to writing private MI will help the company establish a beachhead in an industry that's seen three long-time players washed out to sea by the housing market collapse.

National MI hopes to have its Fannie Mae and Freddie Mac approvals within the next few months, and it's made significant headway in lining up state approvals, officials say. In June, the new private MI was approved for an accelerated licensing process that allows it to seek multiple state licenses on a streamlined basis.

The private MI industry has seen over 80 percent of its capital wiped out by the housing meltdown, said Brad Shuster, chairman, president and CEO of the new MI firm. With the very high quality of new mortgages being originated now, it creates a "very ripe" opportunity to get in the business and generate attractive returns for investors, said Shuster, a former executive of PMI Mortgage Insurance who founded the new MI.

Shuster said the new entrant has several key advantages. First, it's starting with a specialized information technology system built specifically for its business by a Wisconsin firm that NMI acquired. The system allows NMI to collect necessary data and provide real-time feedback to lender customers, he explained.

That's important because it will enable NMI to underwrite every loan either prior to origination or soon afterwards. "Our approach to underwriting allows us to have a better look at the risk we're taking," he said. And having that level of control over loan quality from the beginning of the process will allow National MI to offer more comprehensive insurance coverage.

"Our master policy will be much clearer and customers will have more confidence in the coverage" compared to recent experience in the industry, Shuster said. Lender interest in the new company has been very strong, he noted, particularly because of the kind of policy NMI will offer. "I think people do care about counterparty risk," he said, "and a lot of lenders have had problems with rescissions. That's a big issue for people."

In addition to being more robust, NMI's new business platform will be measurably more cost effective to run than the systems that other MIs are stuck with, many of them built decades ago, the NMI executive said. The modular design of the system will also allow it to be upgraded fairly easily.

The enhanced efficiency of its platform will offset the added cost of underwriting loans before

they're originated, Shuster said. The result will be that NMI pricing will be in line with what other MIs offer. "We're going to be spending a little more money operationally to review every loan," he said, "but that's a good trade off."

NMI signed up about 40 investors – none of which are affiliated with mortgage lenders – after doing road shows for over 100 potential backers. The firm has over \$500 million in capital to start doing business when its approvals come through.

Shuster acknowledged that regulatory policy is a significant risk for NMI and other private MIs. The first proposed rule on risk retention in non-agency securitization and the proposed Basel III capital rule treat private MI as though it isn't there. The fate of Fannie Mae and Freddie Mac – the major reason that private MI exists – remains up in the air, although the government-sponsored enterprises' regulator has consistently supported the need for private MI.

The GSEs will continue to use private MIs for the foreseeable future, Shuster said, but there is also a long-term need for private capital to take a first-loss position on higher loan-to-value mortgages. There is growing demographic demand for such loans as a huge swath of young households reach their mid-30s, the time when they want to buy a home. Few of those households have funds to make a 20 percent downpayment, and forcing them to wait to accumulate those savings would put a huge brake on the housing market.

NMI plans to focus on first-time homebuyers and hopes to develop some products that will be attractive to lenders affiliated with homebuilders, Shuster said. That means competing head-on with the FHA program for higher LTV business. ♦

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