Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue: Updates from Model 630 Mortgage Guaranty Insurance**

**Check (applicable entity):**

 P/C Life Health

Modification of Existing SSAP [x]  [ ]  [ ]

New Issue or SSAP [ ]  [ ]  [ ]

Interpretation [ ]  [ ]  [ ]

Description of Issue:

This agenda item addresses updates to the *Mortgage Guaranty Insurance Model Act* (Model #630) which was adopted by NAIC Executive and Plenary in August 2023. Model #630 is excerpted in *Appendix A-630 Mortgage Guaranty Insurance* which is referenced in *SSAP No. 58—Mortgage Guaranty Insurance*. In addition, SSAP No. 58 includes some excerpts from Model #630 regarding contingency reserves.

The updates to Model #630 were part of a multiyear project by the Mortgage Guaranty Insurance (E) Working Group which began in November 2012. The project originally considered updating the capital requirements for mortgage guaranty insurers, but ultimately determined to focus on updating the model law. The updates to Model #630 were primarily drafted in 2022 and 2023.

This agenda item will review the new model for potential updates to SSAP No. 58 and Appendix A-630, with a focus on accounting and reporting issues. Although the model law was expanded, most of the key accounting related provisions only have minor updates. As part of this review some of the summary conclusion, general section which is descriptive of the mortgage industry is also proposed to have minor updates.

Existing Authoritative Literature:

*Appendix A-630 Mortgage Guaranty Insurance*

*SSAP No. 58—Mortgage Guaranty Insurance* (bolding added for emphasis)

1. This statement establishes statutory accounting principles for mortgage guaranty insurance and addresses areas where mortgage guaranty insurance accounting differs from other lines of insurance. To the extent a topic is not covered **by this statement and Appendix A-630,** mortgage guaranty insurance accounting shall comply with statutory accounting guidance for other lines of property and casualty insurance.

2. Mortgage guaranty insurance protects a lender against loss of all or a portion of the principal amount of a mortgage loan upon default of the mortgagor. Mortgage guaranty insurance differs from other types of property and casualty insurance in that coverage is long-term, and in most cases, premiums are level and paid monthly. Most states require issuers of mortgage guaranty contracts to be monoline insurers and impose limitations on the aggregate amount of risk insured based on geographic territories. Additionally, states may require mortgage guaranty insurers to reinsure with only selected reinsurers.

6. Mortgage guaranty insurance companies generally offer the following premium payment plans: (a) monthly premiums, (b) a single premium which provides coverage for periods ranging from three to 15 years, (c) nonlevel annual premiums, and (d) level annual premiums. All policies are renewable at the discretion of the lender. The mortgage guaranty insurer does not have an option to cancel or nonrenew the policy, except for fraud or nonpayment of the premium.

15. Pool insurance policies are not cancelable by the insurer except for nonpayment of premium. These policies may be written on mortgage pools having terms of up to 30 years. However, the average policy life is 8 to 12 years.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None.

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:**

The current number of mortgage guaranty insurers is less than ten and these are concentrated in three U.S. states North Carolina, Pennsylvania and Wisconsin.

**Convergence with International Financial Reporting Standards (IFRS): Not applicable.**

Staff Review Completed by: Robin Marcotte – NAIC Staff, September 2023

**Staff Recommendation**:

NAIC staff recommends that the Working Group move this to the active listing and expose the intent to review Model #630 for incorporation into SSAP No. 58 and Appendix A-630 as applicable. Because there are less than ten mortgage guaranty insurers, and they are concentrated in the states of North Carolina, Pennsylvania and Wisconsin, NAIC staff requests comments on the proposed effective date of the AP&P updates. Initial feedback indicates that the earliest that the Model #630 revisions could be applicable in the affected states would be January 1, 2025, or later. NAIC staff is hesitant to recommend adoption of revisions to the AP&P Manual prior to adoption by the primary state regulators of the mortgage guaranty insurers.

**Status:**

On December 1, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed their intent to review the revisions to the *Mortgage Guaranty Insurance Model Act* (#630) for incorporation into SSAP No. 58 and Appendix A-630 as applicable. The Working Group also requested comments on the proposed effective date of the AP&P updates.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/12-1-23 Fall National Meeting/Exposures/23-31 Model 630 Mortgage G.docx