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## Office of Thrift Supervision

Department of the Treasury

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**MEMORANDUM FOR:** CHIEF EXECUTIVE OFFICERS

**FROM:**

Thomas A. Barnes, Deputy Director  
Examinations, Supervision, and Consumer Protection

**SUBJECT:**

Evaluation and Selection of Private Mortgage Insurance Providers

The current housing crisis has resulted in unexpectedly high levels of delinquencies and losses from residential mortgage loans of all types. Mortgage insurance providers have also experienced unprecedented losses and deterioration of their capital and reserves. This underscores the need for robust due diligence when savings associations select private mortgage insurance (PMI) providers to insure residential mortgages. Savings associations should establish and maintain prudent policies and procedures for identifying, selecting, and monitoring private mortgage insurance providers.

- Management should perform a thorough analysis of each insurer it plans to use to assess the insurer's viability, capital and reserves, profitability, and overall financial condition.
- The board of directors or its designated committee should review such analyses and formally approve the insurers the savings association intends to use.
- Management should periodically monitor PMI providers for their financial soundness and viability.
- The board and management should ensure that the association adheres to all loan underwriting, documentation, recording, collection, and recordkeeping requirements of the PMI insurer so that the insurance remains in force. An internal review should be conducted at least annually to ensure compliance.
- Where the association does not maintain insurance on high LTV loans, it should risk-weight those loans appropriately.
- Management should report to the board any significant PMI payment claim difficulties.

Lenders often use PMI to mitigate the elevated risk of loss associated with residential mortgages with loan-to-value ratios (LTVs) of 80 percent or more. Appendix A of the interagency real estate lending standards (12 CFR 560.100-101) requires savings associations to report high LTV one- to four-family mortgage loans (with LTVs of 90 percent or more) to their boards of directors and limit exposure for all high LTV loans to no more than 100 percent of their capital. High LTV one- to four-family mortgage loans with mortgage insurance are exempt from such reporting requirements and exposure limits, based on the reliability of loss coverage provided by PMI.

For further information, contact your Regional Office, or William Magrini at (202) 906-5744) or Stephen Lake at (202) 906-7516, Credit Risk Division.