BILL ANALYSIS

S.B. 147
By: Deuell
Insurance
Committee Report (Unamended)

BACKGROUND AND PURPOSE

Private mortgage insurance can assist lenders in making funds available to home buyers for low-down-payment mortgages by insuring these lending institutions against a significant portion of the financial risk of default. A mortgage guaranty insurer currently is required to limit a lender's exposure to 25 percent of the entire debt in any one company or affiliate; however, interested parties contend that this limitation has never achieved its intended purpose, which was to shift a portion of the risk of default to third-party reinsurers. Interested parties reason that third-party reinsurance for mortgage guaranty insurance appears to be nonexistent and that reinsurance to meet the 25 percent requirement is now provided by affiliated reinsurers set up for that purpose.

To meet the demand by lenders for higher coverage, interested parties report that these companies are forced to establish, license, and maintain separate affiliated entities and to capitalize them to meet minimum statutory requirements as well as expected losses. Separate books and records, periodic reports, and licenses also must be maintained for each entity, both by the companies and the Texas Department of Insurance. Interested parties contend that these transactions provide no new capital but impose significant costs and administrative burdens while all of the risk still remains with the mortgage guaranty insurer and its affiliates.

S.B. 147 seeks to minimize these costs and administrative burdens by repealing retained risk and reinsurance provisions relating to the amount of outstanding total liability assumed by a mortgage guaranty insurer.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

S.B. 147 amends the Insurance Code to repeal provisions requiring a mortgage guaranty insurer, in providing insurance against financial loss because of nonpayment of principal, interest, and other amounts agreed to be paid under the terms of a note, bond, or other evidence of indebtedness that is secured by an authorized real estate security for certain real estate improvements, to elect to limit the insurer's coverage against such financial losses, net of reinsurance, to a maximum of 25 percent of the entire indebtedness to the insured or to pay the entire indebtedness to the insured and acquire title to the authorized real estate security.

S.B. 147 repeals Section 3502.158, Insurance Code.

EFFECTIVE DATE

On passage, or, if the bill does not receive the necessary vote, September 1, 2013.