

February 22, 1963.
Placed on Calendar.

House File 319
By COMMITTEE ON INSURANCE.

Passed House, Date 3-22-63

Passed Senate, Date 4-19-63

Vote: Ayes 84 Nays 0

Vote: Ayes 42 Nays 1

Approved 4-26-63

*Passed on file 3/25
Insurance 3/26
Pass 4/10*

A BILL FOR

An Act regulating the sale of mortgage guaranty insurance by licensed insurance companies.

Be It Enacted by the General Assembly of the State of Iowa:

1 Section 1. "Mortgage guaranty insurance" means insurance
2 against financial loss by reason of nonpayment of principal,
3 interest and other sums agreed to be paid under the terms of any
4 note or bond or other evidence of indebtedness secured by a
5 mortgage, deed or trust or other instrument constituting a lien
6 or charge on real estate.

1 Sec. 2. Eligibility for mortgage guaranty insurers shall be
2 as follows:

3 (1) An insurer, in order to qualify for writing mortgage
4 guaranty insurance, must have the same surplus to policyholders
5 as that required of a multiple line company by section five
6 hundred fifteen point forty-nine subsection eight (515.49(8)) of
7 the Code.

8 (2) An insurer transacting any class of insurance other than
9 mortgage guaranty insurance is not eligible for the issuance of a
10 certificate of authority to transact mortgage guaranty insurance
11 in this state, nor the renewal thereof.

12 (3) A foreign or alien insurer writing mortgage guaranty
13 insurance shall not be eligible for the issuance of a certificate
14 of authority in Iowa unless it has demonstrated a satisfactory

15 operating experience in its state of domicile.

1 Sec. 3. The unearned premium reserve shall be computed in
2 accordance with section five hundred fifteen point forty-seven
3 (515.47) of the Code, except that all premiums on risks written
4 for one year or less must be reserved on a monthly pro rata
5 basis, and the reserve for those policies covering a risk period
6 of more than five years shall be computed in accordance with
7 formulae filed by the insurer and approved by the commissioner of
8 insurance.

1 Sec. 4. For the protection of the people of this state and
2 for the purpose of protecting against the effect of adverse
3 economic cycles, the company shall establish a contingency
4 reserve which shall be maintained for one hundred eighty (180)
5 months. To provide for this, the company shall annually
6 contribute fifty percent (50%) of the earned premiums to this
7 reserve. The earned premiums so reserved may be released,
8 annually, after the specified time of one hundred eighty (180)
9 months has elapsed. However, subject to the approval of the
10 commissioner, this reserve may be available only for loss
11 payments, when the loss ratio (incurred losses to premiums
12 earned) exceeds twenty percent (20%). This amount so used shall
13 reduce the next subsequent annual release to surplus from the
14 established contingency reserve.

1 Sec. 5. A mortgage guaranty insurer shall not at any time
2 have outstanding a total liability, net of reinsurance, in excess
3 of twenty-five (25) times its capital, unassigned funds and
4 contingency reserve. It shall not insure loans secured by
5 properties in a single housing tract or a contiguous tract (not

6 separated by more than one-half (1/2) mile) in excess of ten
7 percent (10%) of its capital, unassigned funds and contingency
8 reserve. Coverage may be provided only if the improvement on
9 such real estate is a residential building or buildings designed
10 for occupancy by not more than four families.

1 Sec. 6. The case basis method shall be used to determine the
2 loss reserves, which shall include a reserve for claims reported
3 and unpaid and a reserve for claims incurred but not reported.

1 Sec. 7. Mortgage guaranty insurance shall be subject to the
2 provisions of chapter five hundred fifteen A (515A) of the Code,
3 for the purposes of rate making.

1 Sec. 8. All policy forms and endorsements shall be filed with
2 and be subject to the approval of the commissioner of insurance.
3 with respect to owner-occupied single family dwellings, the
4 mortgage insurance policy shall provide that the borrower shall
5 not be liable to the insurance company for any deficiency arising
6 from a foreclosure sale.

1 Sec. 9. No bank, savings and loan association, insurance
2 company or other lending institution, any of whose authorized
3 real estate securities are insured by mortgage guaranty insurance
4 companies may state in any brochure, pamphlet, report or any form
5 of advertising that the real estate loans of the bank, savings
6 and loan association, insurance company or other lending
7 institution are "insured loans" unless the brochure, pamphlet,
8 report or advertising also clearly states that the loans are
9 insured by private insurers and the names of the private insurers
10 are given and shall not make any such statement at all unless
11 such insurance is by an insurer authorized to write this coverage

12 in this state.

- 1 Sec. 10. All companies writing insurance as authorized by
- 2 this chapter shall, in addition to the provisions herein, comply
- 3 with and be subject to all of the provisions of chapter five
- 4 hundred fifteen (515) of the Code not inconsistent herewith.

EXPLANATION OF HOUSE FILE 319

Recently certain insurance companies have been formed to compete with the federal government's FHA program of insuring home loans. The experience of the 1930's dictates that these companies should be subject to some special reserve requirements.

This bill will provide for adequate safeguards to the general public should we experience marked fluctuations in real estate values similar to those that caused insolvencies in mortgage guaranty companies in the 1930's.