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News Items

Top : **Front Page**

GE Mortgage Could Force GSEs to Hold More Capital

NEW YORK, Feb. 28 (LendingIntelligence.com) — Government-sponsored enterprises Fannie Mae and Freddie Mac could be forced to hold more capital in reserve if one of the nation's largest mortgage insurers intentionally has its ratings dropped to AA from AAA.

GE Mortgage Insurance Corp., a unit of General Electric Co., announced this morning it would conduct a "serious evaluation" of its ratings status this morning.

Currently, GE Mortgage Insurance, and United Guaranty Corp., a unit of American International Group Inc., are the only two AAA-rated mortgage insurers in the country, based, in large part, on the strengths of their parent companies.

GE Mortgage said there was not enough incentive for it to remain a AAA-rated mortgage insurer based on a new capital requirement rule released last week.

The Office of Federal Housing and Enterprise Oversight (OFHEO), the GSEs' regulator, announced changes last week to its capital requirement rule, scheduled to go into effect in September. Those new rules increase the amount of capital Fannie and Freddie need to reserve against home loans that have private mortgage insurance, a requirement on all mortgages where the homeowners make less than a 20% down payment.

Under the new rule, AAA-rated mortgage insurers would be expected to repay 96.5% of the outstanding loan, should it go into default. That is an increase from the original figure of 95% that OFHEO released last September when it published the new risk-based capital guidelines. AA-rated insurers would now be expected to pay 91.25%, up from 85%. What has GE Mortgage Insurance irked, is that the difference between AAA-rated and AA-rated insurers has dropped to 5%, from 10%.

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Because AAA-rated insurers require more capital to retain that rating, officials at GE Mortgage Insurance said that the company could reduce its own capital requirements by as much as $1 billion, if it switches to a AA-rated insurer.

That is capital that would have to be picked up by the GSEs.

"GE is providing a free benefit to the GSEs and maybe it looks like they don't want to anymore," said one mortgage insurance executive, who asked not to be named.

If GE Mortgage Insurance is re-rated, that could affect all the loans it is currently insuring, estimated to be in the $115 billion range.

A spokeswoman at United Guaranty did not return calls seeking comment by press time.

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