



# PrivateMI

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## P E R S P E C T I V E

### Preparation and PrivateMI: Finding the Home You Want

As a first-time home buyer, 28-year-old Ashley Brown was extraordinarily prepared and knew exactly what he wanted. A design and architecture buff, he specifically was looking to buy a place in a building that had been built before World War II, and he wanted to live in Adams Morgan, one of the most diverse and eclectic neighborhoods in Washington, D.C.

Ashley tackled his home buying quest in a determined fervor. He spent three weeks with his real estate agent looking at apartments for three to four hours on weekdays and all day on weekends. Ashley looked at a staggering 107 places in less than a month. As luck would have it, when he made his first offer, his preparation and determination had paid off. His bid was accepted and he had a loft in a 1927-era building cooperative to call his own.

Ashley largely credits private mortgage insurance (PrivateMI) with helping make his dream of homeownership a reality.

"I could never have bought my

house without PrivateMI. I didn't have \$30,000 in the bank to use as a down payment. My mortgage broker recommended that I consider PrivateMI. I had great credit but I was price constrained from an income perspective and everything is so expensive — especially in Washington, D.C.," says Ashley. "I'm a huge fan of PrivateMI. I'm the PrivateMI poster boy."

Although his co-op building pre-dates the Great Depression, Ashley says it has all the modern conveniences. His one-bathroom loft is on the top level of the building, and features the original interior design, including the flooring, tile and bathtub/shower (complete with 360 degree



Ashley Brown relaxes in Washington, D.C.'s Adams Morgan neighborhood.

curtain). Ashley has updated the loft with modern recessed lighting, a paint job and some new appliances. Although his loft is relatively small — approximately 475 square feet — Ashley says he would rather sacrifice space in order to have a unique home with character in a great location within walking distance to his office.

A communications consultant,

Ashley enjoys decorating and renovating his co-op, building relationships with his neighbors, and living in the fun and funky Adams Morgan neighborhood. Ashley's co-op building has 52 units and houses approximately 60 residents. As the building co-op association president, he says he knows almost everyone in the building.

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## The Housing Boom That Keeps Booming

U.S. home sales and prices continue to defy economists' expectations. Sales are moving at a pace that could establish a new annual record, and prices are climbing upward at their fastest rate in a generation.

Consumer demand spurred the fast-paced sales activity, flying in the face of belief that the housing market is beginning to soften. Across the nation, median housing prices are 40 percent higher than they were three years ago.

The National Association of Realtors housing price report for June showed the highest annual appreciation rate in nearly 25 years — 14.7 percent to a record national median price of \$219,000. Regions showing the biggest hikes in prices were in the West, where the median price across the region was up 17.4 percent, and in the Northeast, where the median price rose nearly 14 percent.

The June report, which appeared to surprise many analysts, offers more

evidence that the housing market remains robust as it continues to fuel domestic economic expansion. Some economic experts have commented recently about the possibility that the nation might be in the midst of a "speculative fervor," which is driving housing prices to levels that cannot be sustained — likening it to the stock-price boom in the 1990s.

Against that backdrop, the Fed has been boosting short-term interest rates in an attempt to restrain economic growth and inflation. But the increases have thus far had minimal impact on the long-term interest rates that drive housing markets.

The sustained housing boom has made homeownership as hot a topic as ever. For young professionals or

low- to middle-income families trying to enter the market, however, the skyrocketing prices have made it increasingly difficult to afford a traditional 20 percent down payment. Private mortgage insurance (PrivateMI) — which offers down payments as low as three percent, and sometimes even lower for qualified borrowers — can mean the difference between participating in this housing boom and building economic stability, or being left behind. 🏠

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## Legislative Update: Mortgage Insurance Tax Deductibility

The Mortgage Insurance Fairness Act of 2005 is gaining momentum in both the House and Senate, where companion bills (HR 3098 and S 132) were introduced by Senators Gordon Smith (R-OR) and Blanche Lincoln (D-AK) and Representatives Paul Ryan (R-WI), William Jefferson (D-LA) and Eric Cantor (R-VA). The legislation would make mortgage insurance premiums tax deductible for households with incomes below \$100,000.

Mortgage insurance is a credit enhancement that protects lenders against loss if a borrower defaults on a mortgage loan. Traditionally, lenders have required a down payment of at least 20 percent of a home's value. For most first-time home buyers, saving money for such a sizeable down payment is the greatest barrier to homeownership. Lenders will approve a mortgage with a smaller down payment, however, if the mortgage is insured.

"Even a modestly priced home by today's standards could require as much as \$40,000 down. It is increasingly difficult for families to put away this kind of money," said Suzanne C. Hutchinson, Executive Vice President of the Mortgage Insurance Companies of America (MICA). "By allowing the deductibility of private and government mortgage insurance, homeownership can become a reality for many of these families."

Approximately 10 million Americans currently pay government or private

mortgage insurance premiums — most of them low- and moderate-income families. Private mortgage insurance (PrivateMI) helps potential buyers get into homes sooner, for less money down, and once enough equity is accrued it can be cancelled.

The Mortgage Insurance Fairness Act passed the Senate twice and was sponsored by over half the members of the House. Additionally, it has broad-based support from community, industry, housing and non-profit groups.

"We are optimistic that Congress will take a close look at this legislation and see the value in helping many hardworking people become homeowners," said MICA President Steve Smith, President and Chief Executive Officer of PMI Mortgage Insurance Co. "We look forward to working with Members of Congress and the many national groups that appreciate the value in this measure to rally additional support and pass this legislation to help American families." 🏠

### National Groups Supporting Tax Deduction Initiative

African American Republican Leadership Council	National Association of Mortgage Brokers
American Federation of Teachers	National Association of Real Estate Brokers
Americans for Tax Reform	National Community Reinvestment Coalition
American Homeowners Grassroots Alliance	National Conference of Black Mayors
Bakery, Confectionery, Tobacco Workers & Grain Millers	National Consumers League
Citizens Against Government Waste	National Council of La Raza
Consumer Federation of America	National Education Association
Cuban American National Council	National League of Cities
CUNA Mutual Group	National Organization of African Americans in Housing
Financial Services Roundtable	National Puerto Rican Coalition
Fraternal Order of Police	National Taxpayers Union
Frontiers of Freedom	National Training and Information Center
Hispanic Alliance for Progress	National Urban League
Hispanic War Veterans of America	Real Estate Services Providers Council (RESPRO®)
International Brotherhood of Teamsters	Service Employees International Union
Indian American Republican Council	Small Business Entrepreneurship Council
The Latino Coalition	United Brotherhood of Carpenters & Joiners of America
LULAC	U.S. Hispanic Chamber of Commerce
Manufactured Housing Institute	United States Mexico Cultural and Educational Foundation
Mortgage Bankers Association	
Mortgage Insurance Companies of America	

## New Officers Named to Lead MICA

Washington, D.C. July 27, 2005 — Steve Smith, President and Chief Executive Officer of PMI Mortgage Insurance Co., has been elected President of the Mortgage Insurance Companies of America (MICA).



Steve Smith, President and CEO of PMI Mortgage Insurance Co. and President of MICA

Smith succeeds William V. Nutt, Jr., President and Chief Executive Officer of AIG United Guaranty, who continues to serve as a member of the association's executive committee.

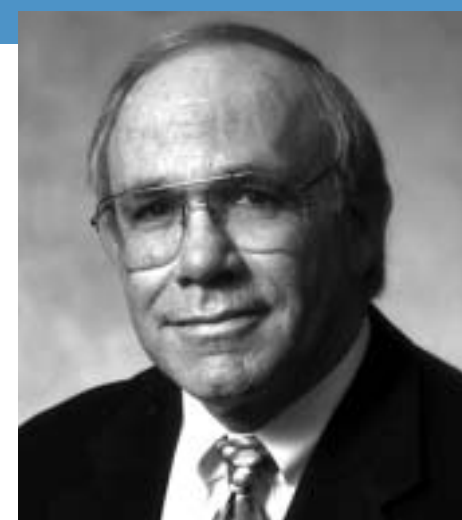
"I look forward to my term as MICA's president," said Smith. "With higher housing prices putting a home purchase out of reach for many, the nation's mortgage insurers will continue to do their part to help low

and moderate-income families achieve the dream of homeownership."

Smith's career in the housing finance industry covers 34 years. He joined PMI in 1979. PMI Mortgage

Insurance Co. is a subsidiary of The PMI Group, Inc. (NYSE:PMI). PMI is located in Walnut Creek, CA and online at pmigroup.com.

Serving alongside Smith as MICA Vice President and Secretary/Treasurer will be William A. Simpson, Chairman of Republic Mortgage Insurance Company. He is a past president of MICA.



William A. Simpson, Chairman of Republic Mortgage Insurance Company and Vice President and Secretary/Treasurer of MICA

protecting these institutions from a major portion of the financial risk of default.

For more information visit [www.privatemi.com](http://www.privatemi.com) for consumers and [www.micanews.com](http://www.micanews.com) for news media. 🏠

**"I look forward to my term as MICA's president."**

— Steve Smith, PMI Mortgage Insurance Co.

MICA is the trade association representing the private mortgage insurance industry. Its members help loan originators and investors make funds available to home buyers for low down payment mortgages by

## PrivateMI Issue Focus

### “Who will the typical PrivateMI user be in the next 3-5 years?”



#### Mortgage Guaranty Insurance Corporation

We have very strong demand due to demographics in this country. We're going to add approximately 35 million people to our population this decade. That's up slightly from the '90s where we had 33 million. The two drivers of that are going to be immigrants, who are going to be about 50 percent of that growth, and minorities, who will make up two-thirds of the 15 million households that will be formed this decade. We have a terrific opportunity to drive a lot of volume in serving the first-time home buyer market.

In total, the real estate markets grow at about 8 percent to 10 percent a year or so. We'll be at the high end of that because first-time home buyers will drive the growth. It is going to be contingent upon us to continue to expand and evolve our core product to address the unique needs of a diverse new breed of home buyer. MGIC has been a driving force in the expansion of homeownership since the early 50s and I don't see that changing anytime soon.

— Curt Culver, *President & CEO*



#### PMI Mortgage Insurance Co.

The simple answer would be anyone without a 20-percent down payment, typically a first time home buyer, who is not getting a government loan. But data from the U.S. Census Bureau and other public

and private sources verify that we are experiencing dramatic shifts in home buyer demographics, which has made this potential user group much more dynamic.

Consider, for example, June and Ward Cleaver\*: white, middle-aged, and married, with 2.3 kids, station wagon, and suburban home. Studies indicate that these (combined) household characteristics are less common than they once were.

While minorities have been, historically, less likely to be homeowners than white Americans, this gap is closing. The minority homeownership rate rose a record 51.6 percent during the first quarter of 2005, according to the U.S. Census Bureau. And more than two-thirds of the new households created in the next 10 years are expected to be minority or immigrant households.

The data also indicates other shifts in the characteristics of home buyers. The national homeownership rate for households headed by single females reached 53 percent in 2000, up from 48 percent in the early 1980s. In 1999 the median age of a home buyer was 39, but by 2001 the age had dropped to 36, so we are also seeing younger borrowers. These are just a few examples of “emerging markets” home buyers, the MI customers of the future, who would benefit from the services provided by PrivateMI companies.

\*For those under the age of 50, they were the parents in *Leave it to Beaver*, a popular television show that ran from 1957 to 1963.

— Henry Cooper, *Senior Project Leader, Emerging Markets*



#### Republic Mortgage Insurance Company

While over the next five years we don't expect any dramatic changes in the typical PrivateMI user, we do expect the continuation of demographic trends that have been occurring over the past few decades. One example of this is the shift away from the traditional home buyer being a married couple with children. According to the 1980 Census, almost 1 in 3 households was a married couple with children, however this number had dropped to 1 in 4 in the 2000 Census. The changing nature of the American household has led to a change in the American homeowner. Today many more single family households, couples without children and unmarried couples are buying homes and they will continue to account for an increasing share of home buyers going forward.

Another major demographic trend has been the sharp increase in immigrant household formation, which accounted for just over 30 percent of total household formation over the past decade. Not only will these immigrant households account for an increasing share of home buyers in the near future, but even more so will their children, as second-generation households are more likely to be homeowners. The PrivateMI industry will continue to develop products and programs to serve these new home buying markets in the years to come.

— Daniel Green, *Staff Economist*



#### AIG United Guaranty

As mortgage lenders find increased success in reaching emerging markets, we anticipate that the benefits of mortgage insurance will result in more and more immigrant and previously under-served households entering the market for the first time. In fact, in 1993 minorities represented 23 percent of first-time home buyers; by 2003, this had increased to 35 percent. And the Joint Center for Housing Studies at Harvard estimates that minorities — including immigrants — will make up 46 percent of the growth in home ownership over the next 10 years.

To support this trend in homeownership by “nontraditional” borrowers, Fannie Mae and Freddie Mac recently announced a number of program enhancements to increase access to homeownership by home buyers with low and moderate incomes or who live in underserved communities. These enhancements include reducing certain mortgage insurance coverage requirements; allowing cash-on hand as a source of funds; permitting subordinate financing other than Community Seconds; and offering 5/1 ARMs.

In light of the emerging markets, programs introduced by mortgage bankers throughout the U.S. and the recent guideline changes by Fannie Mae and Freddie Mac, mortgage insurers are working to ensure that PrivateMI users in the next 3 to 5 years will include homeowners who reflect the diversity that is America itself.

— Tony Lucente, *VP-Emerging Markets*

## ...Finding the Home You Want

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"I could not have asked for a better community in which to live and I love the fact that I'm able to live in a building that is more than 90 years old, which is rare in America," says Ashley. "The idea of the cooperative building is that it is very community-spirit driven. The people care about one another. The building has a roof-deck with a community garden that the residents take care of so it's a great meeting spot. We try to keep residents' fees low so we do our own gardening and grounds work. The neighbors get along very well. It's a terrific environment."

When he relocated to Washington, D.C. from Boston, Ashley lived for approximately 10 months in a row house that had been subdivided into three apartments. He lived on the third floor, which had once been the attic. However, Ashley admits the real benefit to owning his place is the sense of belonging, permanence and financial security. He says he likes knowing that he could live there for the next hundred years and no one could make him move — and he knows he will never again have to face a rent increase.

"I know exactly what my housing

costs will be in five years, ten years, or even 15 years because I have a thirty-year fixed mortgage," Ashley says. "I would never be in such a good position without PrivateMI."

In order to climb the ladder of wealth accumulation you have to be able to get on it and if you set the first rung so high that people can never make that leap, then a large number of the population will be left out entirely. PrivateMI made all the difference for me and I know it helps lots of other people."



Ashley Brown's co-op building in the Adams Morgan neighborhood of Washington, D.C.

## Thousands Learn About PrivateMI Through Minority Outreach Efforts

More than 41,000 people have attended national conferences this summer where Mortgage Insurance Companies of America (MICA), the trade association of the private mortgage insurance (PrivateMI) industry, has been conducting educational outreach to help African Americans, Hispanics and Asian Americans close the homeownership gap.

Current statistics from the Harvard University Joint Center for Housing Studies' *State of the Nation's Housing: 2005* report finds that minority homeownership rates still lag behind that of the rest of the country by approximately 25 percent. In fact, though homeownership rates have been steadily rising across all racial and ethnic groups over the

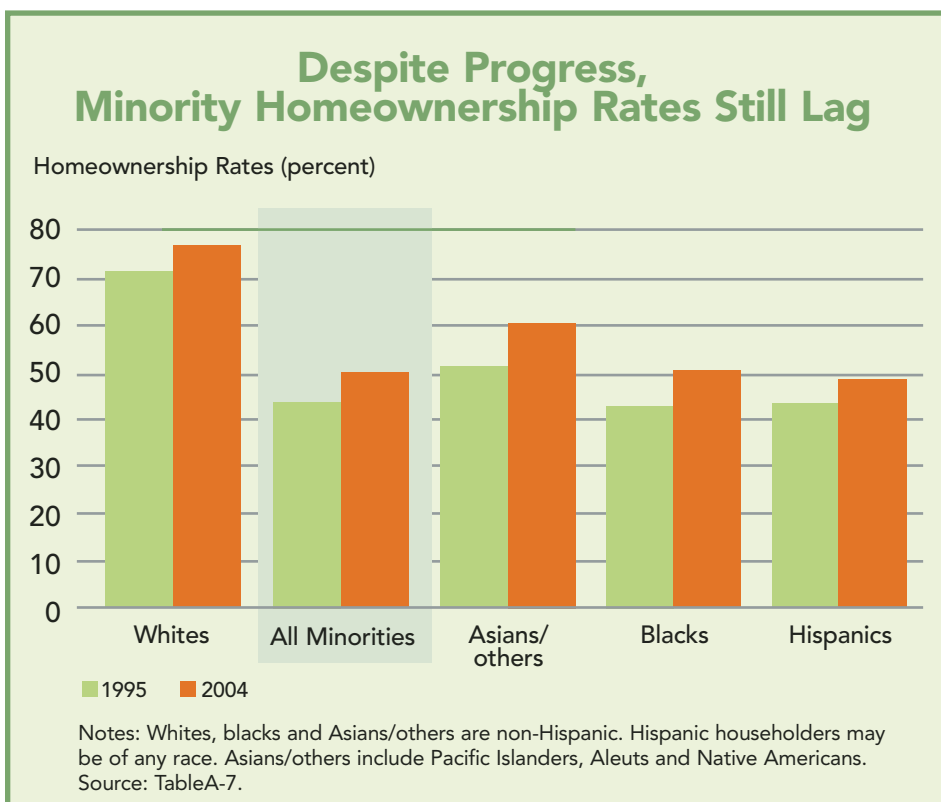
past decade, only 49.5 percent of African Americans, 47.4 percent of Hispanics and 59.5 percent of Asian Americans are homeowners, compared to 75.7 percent of the rest of the nation.

According to the report, minority households represent the greatest opportunity for growth in terms of homeownership. With more than two-thirds of households created in the next ten years expected to be minority-headed households, it continues to be critical to let members of these communities know how and where they can get the help they need to buy their own homes.

MICA representatives attended



Attendees fill out survey information at the annual NAACP convention in Milwaukee, Wisconsin.



From *The State of the Nation's Housing: 2005*, a report by Harvard University's Joint Center for Housing Studies.

national conventions of the National Association for the Advancement of Colored People (NAACP), with 3,500 attendees; the National Urban League (NUL), with 11,000 attendees; the National Council of La Raza (NCLR), with 18,000 attendees; the League of United Latin American Citizens (LULAC), with 8,500 attendees; and the National Coalition for Asian Pacific Community Development, with over 150 attendees from community development-related organizations.

At each conference, MICA representatives staff a booth in the exhibition hall, distribute educational materials to conference participants and field questions from consumers about how PrivateMI can help them purchase a home.

This fall, MICA representatives will continue outreach efforts at both the U.S. Hispanic Chamber of Commerce Annual Convention (USHCC) in Milwaukee and the Congressional Black Caucus Foundation's Annual Legislative Conference in Washington, D.C. 🏠

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