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Losses mount for mortgage insurers

$2.6 billion in losses has been reported this year by large mortgage insurance firms; $1.7 billion of those losses accrued in the last three months. Why are these companies losing so much money? The insurance companies insure loans when a home buyer can't make the full 20% down payment of a home's purchase price. If, or when, the borrower defaults on his/her loan, the insurers pay the lender a portion of the losses.

Mortgage insurance companies play a significant role in the mortgage industry, as they assist homebuyers that might not otherwise be able to afford or qualify for a home. With foreclosure rates on the rise, analysts fear that the critical financial situation insurers are in will inevitably make the home buying process more difficult than it already is.

Michael F. Grasher, an analyst with Piper Jaffray, has stated that the industry's future hinges on whether the current economy forces an unexpected number of homeowners into foreclosure. At this point in time the industry has an adequate amount of resources to pay its projected claims. Grasher goes on to say, "So that's today. What happens a year from now? That is the concern out there, that these companies will face more problems ahead."

What happens if the insurance industry does lose its footing? The home buying process would change, possibly returning to 20 percent down payments; or more consumers may gravitate towards a loan from the Federal Housing Administration which requires as little as 3 percent down and the government provides the insurance.

The half-dozen large firms that dominate the mortgage insurance industry are tightening the belt and increasing their standards in order to avoid such a change in the home buying process.

Rick Gillespie, a spokesman for the Philadelphia based insurance company Radian, said "We have an interest in trying to cure as many of these loans as possible. The more loans that are cured means we'll have to pay fewer claims".