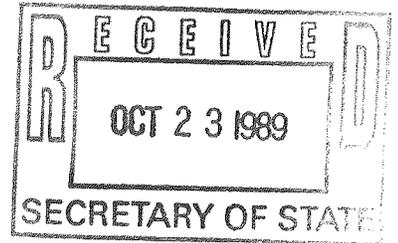


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STATE OF WISCONSIN )  
OFFICE OF THE COMMISSIONER OF INSURANCE )

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETINGS:

I, Robert D. Haase, Commissioner of Insurance and custodian of the official records of said Office, do hereby certify that the annexed order amending, repealing, recreating, and creating a rule relating to the regulation of mortgage guaranty insurance and mortgage guaranty insurers was issued by this Office on October 23, 1989.

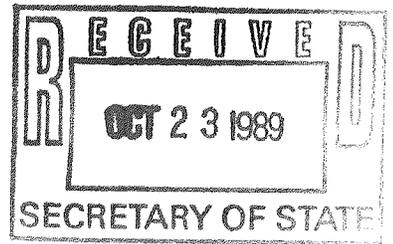
I further certify that said copy has been compared by me with the original on file in this Office and that the same is a true copy thereof, and of the whole of such original.

IN TESTIMONY WHEREOF, I have hereunto subscribed my name in the City of Madison, State of Wisconsin, this 23rd day of October, 1989.

Robert D. Haase  
Commissioner of Insurance

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ORDER OF THE COMMISSIONER OF INSURANCE

RENUMBERING, AMENDING, REPEALING, AND RECREATING AND CREATING A RULE

To renumber ss. Ins 3.09 (3) (n), (7m), (15), (16), (17), and (18); to amend ss. Ins 3.09 (1) and (5) (a); to repeal and recreate ss. Ins 3.09 (8), (12), (13), and (14); and to create ss. Ins 3.09 (3) (n) and (15) relating to the regulation of mortgage guaranty insurance and mortgage guaranty insurers.

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ANALYSIS PREPARED BY THE COMMISSIONER OF INSURANCE

Statutory authority: ss. 601.41 (3), 611.19 (1), 623.03, 623.04, 627.05, and 628.34 (12), Stats.

Statutes interpreted: ss. 601.42, 611.19 (1), 611.24, 618.21, 620.02, 623.02, 623.03, 623.11, 627.05, 627.23, and 628.34 (11), Stats.

This rule makes several changes to the current mortgage guaranty insurance rule, s. Ins 3.09. The major change proposed in s. Ins 3.09 is to revise the criteria for the admissibility and recognition of reinsurance. The revisions will increase the potential reinsurance capacity for mortgage guaranty insurance.

The rule creates segregated trust requirements.

A provision is added to make it clear that a mortgage guaranty insurer's minimum policyholders position (essentially the minimum level of surplus the insurer must maintain) is the equivalent of compulsory surplus under s. 623.11, Stat.

The rule establishes new guidelines under which a mortgage guaranty insurer may reinsure with a multi-line insurer.

Reporting requirements have been modified to include the reporting requirements for unearned premium reserves, loss reserves, and segregated trusts.

The unearned premium reserve requirement has been modified to reflect experience through 1985 and to permit 10% of single premiums to be used for expenses.

The rule permits withdrawals from the contingency reserve on an interim basis and when the minimum policyholders position is equivalent to the contingency reserve after approval of the Commissioner.

The rule explicitly requires a mortgage guaranty insurer to maintain adequate loss reserves, reserves which these insurers already are required to maintain.

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SECTION 1. Ins 3.09 (1) and (5) (a) are amended to read:

Ins 3.09 (1) This section implements and interprets s. Ins 6.75 (2) (i) and (j) and ss. 601.01, 601.42, 611.19 (1), 611.24, 618.21, 620.02, 623.02, 623.03, 623.04, 623.11, 627.05, 627.23, and 628.34 (12), Stats., for the purpose of establishing minimum requirements for the transaction of mortgage guaranty insurance.

(5) (a) A For the purpose of complying with s. 623.11, Stats., a mortgage guaranty insurer shall maintain at all times a minimum policyholders position in the amount required by this section. The policyholders position shall be net of reinsurance ceded but shall include reinsurance assumed.

SECTION 2. Ins 3.09 (7m) is renumbered Ins 3.09 (17).

SECTION 3. Ins 3.09 (7m) is created to read:

Ins 3.09 (7m) SEGREGATED TRUST REQUIREMENTS. A segregated trust established under this section shall be established by a reinsurer for the benefit of a mortgage guaranty insurer and shall satisfy all of the following requirements:

(a) Has a trustee domiciled in the mortgage guaranty insurer's state of domicile, domiciled in Wisconsin or approved by the commissioner.

(b) Meets the criteria in subs. (12) (g) and (h).

(c) Invests in the type of assets permitted by s. Ins 6.20 (5), or, for the reserves required by subs. (13) and (15), in funds as defined by s. Ins 6.73 (4) (f).

(d) Makes quarterly and annual reports as required by the commissioner.

(e) Is subject to withdrawals only by and under the control of the ceding mortgage guaranty insurer.

(f) Permits examinations by the commissioner.

(g) Designates a Wisconsin agent for service of process.

(h) Provides to the commissioner an opinion of counsel stating that the segregated trust and its governing agreements comply with the applicable

sections of this section and that the reinsured will have a valid and perfected security interest or an equitable interest in the assets transferred under the trust agreements, or both, and will be entitled to use those assets for the purpose of satisfying a reinsurer's obligations under the trust agreement in the event of the bankruptcy of the reinsurer.

(i) Is governed by an agreement which, together with all amendments, has been approved by the commissioner.

SECTION 4. Ins 3.09 (8), (12), (13), and (14) are repealed and recreated to read:

Ins 3.09 (8) REINSURANCE. (a) A mortgage guaranty insurer may, by contract, reinsure any insurance it transacts, except that no mortgage guaranty insurer may enter into reinsurance arrangements designed to circumvent the compensation control provisions of sub. (16) or the contingency reserve requirement of sub. (14). The unearned premium reserve required by sub. (13), the contingency reserve required by sub. (14) and the loss reserve required by sub. (15) shall be established and maintained by the original insurer or by the assuming reinsurer so that the aggregate reserves shall be equal to or greater than the reserves required by subs. (13), (14) and (15).

(b) If reinsurance is assumed by an insurer which insures or reinsures other lines of insurance in addition to mortgage guaranty insurance, then in order for a mortgage guaranty insurer to receive credit for reinsurance ceded in its financial statements and in the calculation of minimum policyholders position, all of the following shall occur:

1. The reinsurance agreement and the segregated account or segregated trust arrangements shall be submitted to the commissioner for approval.

2. The reinsurer shall establish and maintain in a segregated account or segregated trust the reserves required by subs. (13), (14) and (15).

3. If the reinsurer establishes a segregated trust, the reinsurance agreement shall provide that:

a. The segregated trust shall be in a form approved by the commissioner;

b. The commissioner shall approve any amendments to the reinsurance agreement before the amendments become effective;

c. The ceding mortgage guaranty insurer has a right to terminate the ceding of additional insurance under the reinsurance agreement if so ordered by the commissioner;

d. The commissioner has the right to request from the assuming reinsurer information concerning its financial condition; and

e. The assuming reinsurer shall notify the commissioner of any material change in its financial condition.

(c) In reviewing a reinsurance arrangement with an insurer which writes other lines of insurance in addition to mortgage guaranty, the commissioner may consider any or all of the following:

1. The financial condition of the reinsurer and the trustee.

2. The reinsurance agreement and its compliance with this section.

3. The trust agreement and its compliance with this section. After review of the reinsurance and trust agreements, the commissioner may deny credit for the reinsurance on the ceding mortgage guaranty insurer's financial statements, if deemed necessary for the protection of the mortgage guaranty insurer or its Wisconsin insureds.

(12) REPORTING. (a) The financial condition and operations of a mortgage guaranty insurer shall be reported annually on the annual statement.

(b) The unearned premium reserve required by sub. (13) shall be reported in the underwriting and investment exhibit - recapitulation of all premiums schedule of the annual statement.

(c) The contingency reserve required by sub. (14) shall be reported as a liability in the annual statement. This liability may be reported as unpaid losses, mortgage guaranty account or other appropriately labeled write-in item. Appropriate entries shall be made in the underwriting and investment exhibit - statement of income of the annual statement. The change in contingency reserve for the year shall be reported in the annual statement as a reduction of or a deduction from underwriting income. If the contingency reserve is recorded as a loss liability, the change in the reserve shall be excluded from loss development similar to fidelity and surety losses incurred but not reported. The development of the contingency reserve and policyholders position shall be shown in an appropriate supplemental schedule to the annual statement as prescribed by the commissioner.

(d) The loss reserves required by sub. (15) shall be reported in the underwriting and investment exhibit - unpaid losses and loss adjustment schedule of the annual statement.

(e) Any property acquired pursuant to the exercise of the claim settlement option shall be valued net of encumbrances; and an aggregate amount of such property may be held as is permitted for nonlife insurer investments pursuant to s. 620.22 (5), Stats.

(f) Expenses shall be recorded and reported in accordance with ss. Ins 6.30 and 6.31.

(g) An insurer which writes mortgage guaranty insurance and any other class of insurance business shall establish a segregated account for mortgage guaranty insurance. An insurer which writes more than one class of mortgage

guaranty insurance shall establish a segregated account for each class of mortgage guaranty insurance. An insurer which reinsures mortgage guaranty insurance and which writes or reinsures any other class of insurance business shall establish a segregated account or segregated trust for mortgage guaranty reinsurance. The classes of mortgage guaranty insurance are those types of insurance defined in:

1. Section Ins 6.75 (2) (i) 1 a and c; or
2. Section Ins 6.75 (2) (i) 1 b and 2; or
3. Section Ins 6.75 (2) (i) 1 d and (j).

(h) Each segregated account or segregated trust established to comply with par. (g) shall contain all of the following applicable reserves:

1. The loss reserves required by sub. (15).
2. The unearned premium reserve required by subs. (13) or (18).
3. The contingency reserve required by subs. (14) or (18) or any surplus required by the commissioner.

(13) UNEARNED PREMIUM RESERVE. Subject to sub. (8), a mortgage guaranty insurer shall compute and maintain an unearned premium reserve on policies in force as follows:

(a) For premium plans on which the premium is paid annually, the unearned premium reserve shall be calculated on either an annual or monthly pro rata basis except that the portion of the first-year premium, excluding policy and other fees or similar charges, which exceeds twice the subsequent renewal premium rate, shall be considered a deferred risk premium. The deferred risk premium shall be contributed to and maintained in the unearned premium reserve until released as earned. The deferred risk premium shall be earned in accordance with the factors for a 10-year premium period in par. (b) or any other formula approved by the commissioner.

(b) For premium plans on which the premium is paid in advance for periods of time greater than one year but less than 16 years, the unearned premium reserve shall be calculated by multiplying the premiums collected by the appropriate unearned premium factor from the table set forth below:

UNEARNED PREMIUM FACTOR TO BE APPLIED TO PREMIUMS COLLECTED

Contract Year Current at Valua- tion Date	2-Year Premium Period	3-Year Premium Period	4-Year Premium Period	5-Year Premium Period	6-Year Premium Period	7-Year Premium Period	8-Year Premium Period
1	89.0%	93.7%	95.3%	96.0%	96.4%	96.6%	96.8%
2	39.0%	65.0%	73.6%	77.6%	79.8%	81.1%	82.0%
		21.3%	40.6%	49.6%	54.5%	57.5%	59.4%
			12.3%	25.5%	32.7%	37.2%	40.1%
				7.6%	16.5%	22.1%	25.7%
					4.9%	11.2%	7.8%
						3.3%	2.3%
Contract Year Current at Valua- tion Date	9-Year Premium Period	10-Year Premium Period	11-Year Premium Period	12-Year Premium Period	13-Year Premium Period	14-Year Premium Period	15-Year Premium Period
1	96.9%	97.0%	97.5%	97.1%	97.2%	97.3%	97.3%
2	82.6%	83.2%	83.7%	84.0%	84.4%	84.7%	85.0%
3	60.9%	62.2%	63.3%	64.1%	64.9%	65.6%	66.1%
4	42.3%	44.1%	45.8%	47.1%	48.2%	49.1%	49.9%
5	28.4%	30.7%	32.8%	34.4%	35.8%	36.9%	37.9%
6	18.5%	21.1%	23.4%	25.2%	26.9%	28.0%	29.2%
7	11.3%	14.1%	16.7%	18.6%	20.4%	21.7%	23.0%
8	6.1%	9.1%	11.8%	13.8%	15.8%	17.1%	18.5%
9	2.0%	5.2%	7.9%	10.0%	12.1%	13.4%	14.9%
10		1.7%	4.4%	6.7%	8.8%	10.2%	11.8%
11			1.4%	3.8%	5.9%	7.4%	9.0%
12				1.2%	3.3%	5.0%	6.6%
13					1.1%	2.8%	4.4%
14						.9%	2.5%
15							.8%

NOTE: For purposes of this calculation, premiums collected means either 90% of the premiums collected or the premium collected less a dollar amount or percentage amount approved by the commissioner to represent initial expenses of selling and issuing a new policy.

(c) For premium plans on which the premium is paid in advance for periods of 16 years or more, the unearned premium reserve shall be calculated either by a method approved by the commissioner or by dividing the premium collected, as defined above in par. (b), into two parts. The first part shall be the amount which is equal to the premium collected for a 15-year premium and which shall be earned in the same manner as a 15-year premium. The second part is the remaining amount of premium in excess of the 15-year premium, which shall be earned pro rata over the remaining term of the premium.

(14) CONTINGENCY RESERVE. (a) Subject to sub. (8), a mortgage guaranty insurer shall make an annual contribution to the contingency reserve which in the aggregate shall be the greater of:

1. 50% of the net earned premium reported in the annual statement; or

2. The sum of:

a. The policyholders position established under sub. (5) on residential buildings designed for occupancy by not more than four families divided by 7;

b. The policyholders position established under sub. (5) on residential buildings designed for occupancy by 5 or more families divided by 5;

c. The policyholders position established under sub. (5) on buildings occupied for industrial or commercial purposes divided by 3; and

d. The policyholders position established under sub. (5) for leases divided by 10.

(b) If the mortgage guaranty coverage is not expressly provided for in this section, the commissioner may establish a rate formula factor that will produce a contingency reserve adequate for the risk assumed.

(c) The contingency reserve established by this subsection shall be maintained for 120 months. That portion of the contingency reserve established and maintained for more than 120 months shall be released and shall no longer constitute part of the contingency reserve.

(d) 1. With the approval of the commissioner, withdrawals may be made from the contingency reserve when incurred losses and incurred loss expenses exceed the greater of either 35% of the net earned premium or 70% of the amount which par. (a) requires to be contributed to the contingency reserve in such year.

2. On a quarterly basis, provisional withdrawals may be made from the contingency reserve in an amount not to exceed 75% of the withdrawal calculated in accordance with subd. 1.

(e) With the approval of the commissioner, a mortgage guaranty insurer may withdraw from the contingency reserve any amounts which are in excess of the minimum policyholders position. In reviewing a request for withdrawal pursuant to this paragraph, the commissioner may consider loss development and trends. If any portion of the contingency reserve for which withdrawal is requested pursuant to this paragraph is maintained by a reinsurer, the commissioner may also consider the financial condition of the reinsurer. If any portion of the contingency reserve for which withdrawal is requested pursuant to this paragraph is maintained in a segregated account or segregated trust and such withdrawal would result in funds being removed from the segregated account or segregated trust, the commissioner may also consider the financial condition of the reinsurer.

(f) Releases and withdrawals from the contingency reserve shall be accounted for on a first-in-first-out basis as provided in sub. (12) (g).

(g) The calculations to develop the contingency reserve shall be made in the following sequence:

1. The additions required by pars. (a) and (b);
2. The releases permitted by par. (c);
3. The withdrawals permitted by par. (d); and
4. The withdrawals permitted by par. (e).

SECTION 5. Ins 3.09 (15) is renumbered Ins 3.09 (16).

SECTION 6. Ins 3.09 (15) is created to read:

Ins 3.09 (15) LOSS RESERVES. (a) Subject to sub. (8), a mortgage guaranty insurer shall compute and maintain adequate loss reserves. The methodology used for computing the loss reserves shall accurately reflect loss frequency and loss severity and shall include components for claims reported and unpaid and for claims incurred but not reported.

(b) A mortgage guaranty insurer shall compute and maintain adequate case basis loss reserves which are based on an estimate of the liability for claims on individual insured loans in various stages of default as listed below. Case basis loss reserves may be calculated on either an individual case basis or a formula basis. Case basis loss reserves shall be established for individual insured loans or leases which:

1. Are in default and have resulted in the collateral real estate being acquired by the insured, the insurer, or the agent of either, and remaining unsold; or
2. Are in the process of foreclosure; or
3. Are in default and the insurer has received notification.

(c) In computing the potential liability for which case basis reserves are required by par. (b), the following factors shall be considered together with the prospective adjustments reflecting historic data relative to prior claim settlements:

1. Prior to the exercise of the claim settlement option, the potential liability shall be either the amount at risk calculated using the coverage settlement option or the potential claim amount minus the value of the real estate.

2. If the claim settlement option exercised results in recording the claim amount as the cost of acquisition of the property, the potential liability is the claim amount minus the lesser of the market value of the real estate or the acquisition cost of the real estate.

3. If the claim settlement option exercised results in the payment of amounts equal to the monthly loan payments or lease rents, the potential liability is the present value, utilizing the insurer's National Association of Insurance Commissioners' (NAIC) financial ratio-investment yield, of the claim amounts minus the present value of either the real estate or the rental income stream.

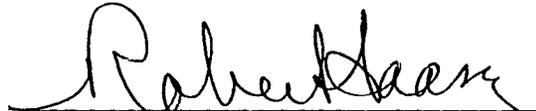
(d) A mortgage guaranty insurer shall compute and maintain a loss adjustment expense reserve which is based on an estimate of the cost of adjusting and settling claims on insured loans in default.

(e) A mortgage guaranty insurer shall compute and maintain an incurred but not reported reserve which is based on an estimate of the liability for future claims on insured loans that are in default but of which the insurer has not been notified.

SECTION 7. Ins 3.09 (16), (17) and (18) are renumbered Ins 3.09 (18), (19) and (20).

The changes in these rules shall take effect on the first day of the month following publication in the Wisconsin Administrative Register as provided in s. 227.22 (2) (intro.), Stats.

Dated at Madison, Wisconsin, this 23<sup>rd</sup> day of October, 1989.



Robert D. Haase  
Commissioner of Insurance