



Letter to the Editor

March 29, 2011

The following is in regard to the commentary [A Crime Called Private Mortgage Insurance](#), by Chris Whalen of the Institutional Risk Analyst, which was published on March 23:

Dear Editor:

I have to comments regarding this article:

1. I am an investment advisor and recently bought our first home. I have a \$1 million liquid net worth but have the problem that only \$80,000 is in fully taxable, liquid (and available for withdrawal) accounts. The remainder is in tax-deferred and tax-free accounts (401ks, IRAs, and ROTH IRAs). As such, it was in my interest to minimize my down payment on the home to preserve my limited available cash. In addition, I have an 800 FICO. We ended up with 5% down and a 95% mortgage. We needed PMI to complete the transaction; hence your suggestion to shut them down would have been a big problem for me!. In our case, I could make a 2% upfront payment to eliminate the 0.95% annual PMI premiums. I am not a credit risk and the PMI mechanism allowed me to acquire our home. Eliminating all PMIs do not necessarily make sense.
2. I agree that PMIs are not insurance, but perhaps the alternative solution is to make them into insurance - i.e., require significant reserves, regulatory enforcement, etc. The whole financial instrument insurance industry has gone off the tracks in the last 15 years, as seen in the demise of MBIA. The underlying principle is not bad - it is the execution of the companies that has failed. Tighter regulation and more transparency would go a long way to fix the problem. I have been telling clients for 10 years that insured munis aren't worth any more that non-insured ones. However, individual muni buyers are a legitimate investor group and a better regulated insurer solution would be a positive.

Sincerely,

Dave Bish

Chris Whalen replies:

I agree that the model is broken. For me the issue is whether this is really an insurable risk in the classical sense. Mortgage default risk is highly correlated to the financial markets and economy, unlike low-beta risk like P&C and life insurance markets. It is not clear what is the right pricing model.



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