

Approved: March 10, 1994
Date

MINUTES OF THE HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

The meeting was called to order by Chairperson William Bryant at 12:45 p.m. on March 3, 1994 in Room 527-S of the Capitol.

All members were present except:

Committee staff present: William Wolff, Legislative Research Department
Bruce Kinzie, Revisor of Statutes
Nikki Feuerborn, Committee Secretary

Conferees appearing before the committee: Bob Hayes, Insurance Department
Dr. Lorne Phillips, Ctr. of Health and Environmental Statistics
Jeff Sonnich, Kansas-Nebraska League of Savings Institutions
Bill Caton, Governor's Commission on Housing and Homeless
Chuck Stones, Kansas Bankers Association
Bud Cornish, Capitol Mortgage
William Mitchell, Alliance Insurance Companies

Others attending: See attached list

HEARING ON SB 485: Designating the secretary of health and environment, as administrator of the health care data base, as statistical agent for the statistical plan for premiums and loss and expense experience by accident and health insurers

Bob Hayes, Kansas Insurance Department, stated that due to 1993 legislation, a health care data governing board now exists and is currently engaged in the process of developing policy regarding the collection of health care data with the Secretary of Health and Environment acting as administrator (Attachment 1). This initiative presents an opportunity to fulfill the legislative requirements regarding the collection of health insurance statistics and is a practical way of integrating insurance data into the broader information system the health care data base will ultimately contain.

Dr. Lorne Phillips, KDHE, stated that this bill provides the mechanism to fund and collect data for the health care database that will provide some of the needed answers which are available from third party payors for health care utilization, funding and availability (Attachment 2). A fiscal note of \$522,000 for the development of this data base has been estimated by the Budget Department.

HEARING ON SB 490: Authorizing additional insurance companies to issue homeowners' policies

Bob Hayes, Kansas Insurance Department, stated that as of May 1, 1994, insurers will be required to possess \$1.5 million in surplus to transact multiple line business (Attachment 3). At this point the requirement is \$1 million so there may be other insurers that will find it necessary to revert to a mutual fire and tornado company status. This bill would simplify the process by adding essentially the same restricted authority to the statutes governing mutual property and casualty insurers generally. The same provisions would be added to the statutes governing capital stock property and casualty insurers.

Jeff Sonnich, Kansas-Nebraska League of Savings Institutions, presented an amendment which would allow Mortgage Guaranty Companies to offer mortgage guaranty insurance on mortgages with a 97% loan-to-value ratio which would allow for a 3% down payment (Attachment 4). Current law only allows up to 95% loans with 2% of the down coming from gifts or grants. Without this amendment, the only alternative for lenders who want to provide a low down payment mortgage is to offer an FHA guaranteed loan. The Community Reinvestment Act goes into effect soon and the amendment will be necessary in order to participate with

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,
Room 527-S Statehouse, at 3:30 p.m. on March 3, 1994.

moderate income (80 - 110% of median income) families. This will allow conventional loans from banks to be made to lower income buyers.

Bill Caton, The Governor's Commission on Housing and Homelessness, stated support for the proposed amendments which will enhance the ability of low and moderate income families to purchase decent, affordable, safe, and accessible housing through conventional mortgage lenders (Attachment 5).

Chuck Stones, Kansas Bankers Association, supports the bill and the amendment which would allow Kansas bankers to participate in new programs initiated at the national level (Attachment 6).

Bud Cornish representing Capitol Mortgage, voiced support for the bill and amendments.

HEARING ON SB 491: Definition of managing general agents, persons exempt; penalties for violations

Bob Hayes, Insurance Department, said this technical bill would exempt third party administrators from the definition of a managing general agent which fall under restrictive regulations implemented in 1990 in order to be in compliance with NAIC programs (Attachment 7). It was not originally intended for third party administrators to fall under the statutes regulating managing general agents and thus be subject to dual regulatory requirements as they currently are.

HEARING ON SB 492: Insurance company annual report to be in electronically readable form, in accordance with rules and regulations of commissioner

Bob Hayes, Insurance Department, explained the proposal which would authorize the Commissioner of Insurance to adopt regulations requiring insurance companies to file their annual financial statement information on an electronically-readable means such as diskette or otherwise (Attachment 8).

HEARING ON SB 506: Similarity of names prohibited for insurance companies or fraternal benefit societies

Bob Hayes, Insurance Department, said the bill would allow a domestic insurance company or fraternal benefit society to be organized and preserve its name despite the fact that it may not yet have a certificate of authority to do business in Kansas (Attachment 9).

William Mitchell, General Counsel to the Alliance Insurance Companies, gave the sequence of events for the Alliance Life Insurance Company from organization, acquisitions, and ultimately merger into another company which has now made the original name available for preservation (Attachment 10). Without this bill, a foreign company could start operating in Kansas and use the Alliance name.

The meeting adjourned at 1:15 p.m. The next meeting is scheduled for March 7, 1994.

GUEST LIST

COMMITTEE: House I & S

DATE: 3-3-94

[illegible]

Testimony on
Senate Bill No. 485

by

Bob Hayes

Kansas Insurance Department

The 1990 session of the Kansas legislature enacted a bill which requires the Insurance Department to promulgate a statistical plan that would provide for the recording, reporting and compilation of premiums, loss experience, and expenses associated with the writing of accident and sickness insurance. Following enactment of this legislation, the Department retained an independent actuarial firm for the purpose of assisting us in the development of the statistical requirements. However, upon completion of the first phase of this work, the Department encountered a significant obstacle in that we have not been able to locate an organization that is willing to serve as a statistical agent i.e. someone with the expertise and resources to collect and compile the enormous number of pieces of data that will be involved. As a result, this statute has not been implemented.

As it turns out, this may be a blessing in disguise. With the 1993 enactment of Senate Bill No. 118, the process of establishing a comprehensive health care data base was started. As a result, the data to be collected from insurance companies and other third party payors may now be somewhat different than would have been the case if only insurance data was to be accumulated. In any event, because of the 1993 legislation, a health care data governing board now exists and is currently engaged in the process of developing policy regarding the collection of health care data. Furthermore, the legislation designates the Secretary of Health and Environment as the administrator of the health care data base.

Senate Bill No. 485 will not only take advantage of the opportunity the health care data base initiative presents to fulfill the requirements of the previous legislation regarding health insurance statistics but, equally important, it would seem to be a practical way of integrating the insurance

*House FD-1
Attachment 1
3-3-94*

data into the broader information system the health care data base will ultimately contain.

State of Kansas

Joan Finney, Governor



Department of Health and Environment

Robert C. Harder, Secretary

Testimony presented to

The Financial Institutions and Insurance Committee

by

The Kansas Department of Health and Environment

Senate Bill 485

We are being encouraged to make health care decisions which will need data. Every discussion about making health decisions calls for more data to be available to assure we will meet the health care needs of Kansans. By enabling the Department of Insurance to develop a statistical plan and with the establishment of the Health Care Data Governing Board, the legislature had the vision to enable two state agencies to begin looking at data needed to answer many health-related questions. In Senate Bill 485, we have before us the mechanism to fund and collect data for the health care database that will provide some of the answers needed for health care utilization, funding and availability.

We need to know how the current system is utilized and be able to estimate how it will be utilized in a new environment. The Kansas Department of Health and Environment understands there are significant challenges to be overcome when we attempt to compile health care utilization and cost data from different third party payors for the state. We believe this database will be a profound accomplishment and a good step toward providing the data necessary to make sound health care decisions.

Testimony presented by: Robert C. Harder
Secretary
Kansas Department of Health and Environment
January 19, 1994

Joan Finney

Attachment 2

March 3, 1994

Testimony on
Senate Bill No. 490

by

Bob Hayes

Kansas Insurance Department

Under Kansas law insurers writing both property and casualty insurance e.g. fire and general liability are generally required to meet the minimum financial requirements applicable to what are known as "multiple line companies". As of May 1 this year, this requirement will be at least \$900,000 of paid-up capital stock and \$600,000 surplus or, if a mutual company, \$1,500,000 surplus. When possessed of this amount of capital and/or surplus and when authorized to do so by their charter and certificate of authority, insurers may transact any kind of fire and casualty insurance recognized by Kansas statutes including multiple peril policies like Homeowners and Farmowners. Insurers may also be authorized to write only property insurance or only casualty insurance in which case the minimum financial requirement is one-half that of a multiple line company.

Also provided for under Kansas law are what are called mutual fire and tornado companies. These are small mutual insurance companies whose authority is basically confined to fire, extended coverage, vandalism and malicious mischief and some theft and glass breakage. These were the small county mutuals where neighbors literally insured each other. With the advent of homeowners and farmowners multiple line package policies in the late 1950s, these companies were placed at a disadvantage because of their limited authority. As a result, the 1961 legislature amended the statutes governing mutual fire and tornado insurers to permit them to issue contracts of insurance which include legal liability coverage under certain conditions. One of these conditions was that such contracts could be issued only on residential policies and property reasonably incidental to such residence. Another condition was that the legal liability portion had to be totally reinsured unless the company had a surplus of at least \$250,000 in which case it could retain the liability risk up to an amount equal to 3% of its surplus. In other words, the legislature allowed such insurers to write

Haun F.D.S.
Attachment 3
3-3-94

multiple line coverage but only if they reinsured all or most of the legal liability exposure. The minimum surplus requirements applicable to this authority have been adjusted during the intervening years and the industry's standard definition of residential property has moved from 1 and 2 family dwellings to 1-4 family but the basic concept has not changed and has worked well. In fact, Kansas domestic insurers write most of the farm property insurance in Kansas and it's very doubtful they could do so if they were unable to issue multiple line (Farmowners) policies.

However, this special authority currently applies only to mutual fire and tornado insurers organized and operating under Chapter 40, Article 10 of Kansas statutes. When insurers can qualify, it is generally advantageous for them to amend their charter or do whatever they have to do to come under the provisions of Kansas law that apply to mutual property and casualty insurance companies that may be authorized to transact all types of property and casualty insurance. Therefore, when the surplus of a mutual fire and tornado insurer is adequate they generally make this change. By doing so they can issue policies to a greater variety of risks, retain a greater portion of the exposure and otherwise simply have more operational flexibility.

Unfortunately, as the storm patterns over the past several years demonstrate, the surplus of insurers does not always grow. It frequently shrinks. And when it shrinks to the point that the insurer can no longer qualify as a "general" property and casualty insurance company, one of their alternatives is to move back to organization under Article 10. Two domestic insurers just completed this transition late last year. As of May 1, 1994, another factor will enter the equation in that the final phase of legislation enacted in 1984 increasing the minimum financial requirements become effective. Therefore, on that date insurers will be required to possess \$1.5 million in surplus to transact multiple line business. As of today the requirement is \$1 million so there may be other insurers that will find it necessary to revert to a mutual fire and tornado company status.

Senate Bill No. 490 would simplify this process by adding essentially the same restricted authority to the statutes governing mutual property and

casualty insurers generally. Section 2 of the proposal would add the same provisions to the statutes governing capital stock property and casualty insurers. The only substantive change between these provisions and those now applicable to mutual fire and tornado insurers is to revise the financial requirements to be consistent with those that will apply as of May 1.



Jeffrey D. Sonnich, Vice-President

Suite 512
700 Kansas Avenue
Topeka, Kansas 66603
(913) 232-8215

March 3, 1994

TO: House Committee on Financial Institutions and Insurance
FROM: Jeffrey Sonnich, KS-NE League of Savings Institutions
RE: Amendment to S.B. 490; Mortgage Guaranty Insurance

The Kansas-Nebraska League of Savings Institutions appreciates the opportunity to appear before the House Committee on Financial Institutions and Insurance to offer an amendment to S.B. 490. The amendment would amend K.S.A 40-3502 subsection (c) to allow Mortgage Guaranty Companies to offer mortgage guaranty insurance on mortgages with a 97% loan-to-value ratio. Current law only allow coverage on mortgages up to a 95% loan-to value.

This amendment will allow private lenders in Kansas to offer a conventional mortgage with only a 3% down payment. These loans would be targeted for low and moderate income borrowers who are looking to buy their first home. Currently the only conventional program targeting low and moderate income is a 3/2 program. The 3/2 program requires 5% down, but would allow borrowers to use gifts or grants to come up with 2% of the down payment. With this amendment lenders could offer new programs recently developed by mortgage guaranty companies that would waive that additional 2% of the down payment.

By using mortgage guaranty insurance lenders reduce their risk exposure on high loan-to-value mortgages. Lenders routinely require mortgage insurance on loan-to-value ratios in excess of 90% or more.

Absent this amendment the only alternative for lenders who want to provide a low down payment mortgage would be to offer a Federal Housing Administration guaranteed loan (FHA). Many lenders do not originate or offer FHA loans because they are an administrative nightmare. Essentially this amendment would provide for a conventional loan version a FHA loan, but without the administrative headaches.

With new Community Reinvestment Act regulation about to go into effect federally insured financial institutions will be looking for ways to provide financing for low and moderate income borrowers. Under the new regulations institution would be evaluated on their percentage of low and moderate income lending. A rating of substantial noncompliance could result in cease and desist orders and civil money penalties being assessed against the institution. Obviously there is a strong motivation to be in compliance with this regulation.

We feel that this amendment would open the door for lenders to make more loans to low and moderate income families without adding substantial risk. We would respectfully request the House Committee amend S.B. 490 to raise the mortgage guaranty loan-to-value cap to 97 percent.

Jeffrey Sonnich
Vice President

encl.

House F.D.D.
Attachment 4
3-3-94

le 35.—MORTGAGE GUARANTY
INSURANCE COMPANIES

40-3501. Title of act. This act may be cited as the "mortgage guaranty insurance act."

History: L. 1977, ch. 154, § 1; Jan. 1, 1978.

40-3502. Definitions. As used in this act the following terms shall have the meanings respectively ascribed to them herein:

(a) "Mortgage guaranty insurance company" shall mean any corporation, company, association, reciprocal exchange, persons or partnerships writing contracts of mortgage guaranty insurance and shall be governed by the provisions of this act and the other provisions of chapter 40 of the Kansas Statutes Annotated applicable to companies organized or operating under the provisions of K.S.A. 40-1101 *et seq.* to the extent such other provisions are not inconsistent with the requirements of this act.

(b) "Mortgage guaranty insurance" shall mean and include: (1) Insurance against financial loss by reason of nonpayment of principal, interest or other sums agreed to be paid under the terms of any note or bond or other evidence of indebtedness secured by a mortgage, deed of trust, or other instrument constituting a lien or charge on real estate, when the improvement on such real estate is a residential building or a condominium or townhouse unit or buildings designed for occupancy by not more than four (4) families;

(2) Insurance against financial loss by reason of nonpayment of principal, interest or other sums agreed to be paid under the terms of any note or bond or other evidence of indebtedness secured by a mortgage, deed of trust or other instrument constituting a lien or charge on real estate, when the improvement on such real estate is a building or buildings designed for occupancy by five (5) or more families or designed to be occupied for industrial or commercial purposes; or

(3) Insurance against financial loss by reason of nonpayment of rent or other sums agreed to be paid under the terms of a written lease for the possession, use or occupancy of real estate, when the improvement on such real estate is a building or buildings designed to be occupied for industrial or commercial purposes.

(c) "Authorized real estate security" shall mean an amortized note, bond or other evi-

add:

ninety-seven
percent (97%)

dence of indebtedness, not exceeding ~~ninety-five percent (95%)~~ of the fair market value of the real estate, secured by a mortgage, deed of trust, or other instrument which constitutes, or is equivalent to, a first lien or charge on real estate, when: (1) The real estate loan secured in such manner is one of a type which a bank, savings and loan association, or an insurance company, which is supervised and regulated by a department of this state or an agency of the federal government, is authorized to make, or would be authorized to make, disregarding any requirement applicable to such an institution that the amount of the loan not exceed a certain percentage of the value of the real estate;

(2) The improvement on such real estate is a building or buildings designed for occupancy as specified by K.S.A. 40-3502(b)(1) or (2); and

(3) The lien on such real estate may be subject to and subordinate to the following:

(i) The lien of any public bond, assessment or tax, when no installment, call or payment of or under such bond, assessment or tax is delinquent; and

(ii) Outstanding mineral, oil, water or timber rights, rights-of-way, easements or rights-of-way of support, sewer rights, building restrictions or other restrictions or covenants, conditions or regulations of use, or outstanding leases upon such real property under which rents or profits are reserved to the owner thereof.

(d) "Contingency reserve" shall mean an additional premium reserve established to protect policyholders against the effect of adverse economic cycles.

(e) "Single risk" shall mean the insurance provided with respect to each separate loan or lease covered by an individual policy of mortgage guaranty insurance or an individual certificate issued pursuant to K.S.A. 40-3511.

History: L. 1977, ch. 154, § 2; Jan. 1, 1978.

Big Set for Home Loans with 3% Down Payments

By JAMES H. SAFT

In a bold move to extend more credit to lower-income people, the home mortgage industry is about to offer loans for as little as 3% down.

Two leading mortgage insurers - Commonwealth Mortgage Assurance Corp. and Mortgage Guaranty Insurance Corp. - say they are preparing to insure such loans. And GE Mortgage Insurance Cos. is set to unveil a similar plan later this week, sources said.

The support from the insurers is likely to inspire a number of banks, thrifts, and mortgage companies to originate the loans, observers said. Another big incentive: the huge Federal National Mortgage Association expressed a willingness to buy the loans.

Many Consumers Shut Out

Up to now, most lenders have required down payments of at least 5% and sometimes closer to 20%.

But those requirements have shut many consumers out of the housing market, particularly first-time homebuyers of modest means. And lenders are under heavy political and regulatory pressure to increase lending to low-income and moderate-income people.

By some estimates, the insurers' initiatives could produce \$3 billion of loans a year.

Down Money 'Biggest Problem'

In lending to people of modest means, "the biggest problem we have is the down money," said Ron Altieri, a senior vice president at Comnet Mortgage Services, a unit of Commonwealth Federal Savings Bank, Valley Forge, Pa.

"Low rates have meant that a lot of people who have been shut out of the market can make the monthly payment - but out-of-pocket payments are tough."

Support from mortgage insurers is important to lenders because it substantially reduces their default risk. Mortgage insurers agree to cover a portion of losses in return for premiums paid by consumers.

'Could Be a Big Help'

In the new programs, the premiums are expected to be about 0.75% a year on the loan amount, or about 0.15% higher than usual.

Two firms say they

will insure such

mortgages, and a

third is in the wings.

Loans of up to 97% of a home's value could be especially useful to banks and thrifts trying to bolster their community reinvestment.

"It could be a big help," said Phil Delle Chiaie, a vice president at Apple Bank For Savings in New York. "It'll broaden our market and help us meet our goals."

The loans could also appeal to nonbank mortgage companies, which are seeking to head off regulatory requirements for more low-income lending.

Secondary Market Crucial

"We think that some of the larger mortgage banks will be very interested in the program," said Gordon Steinbach, executive vice president for affordable housing at Milwaukee-based MGIC.

As with any new loan, a secondary market is crucial to the proliferation of 97% loan-to-value lending programs. Fannie Mae will work with MGIC on its initiative, the insurer said.

Sources said Fannie was likely to work similarly with GE Mortgage Insurance - a General Electric Co. subsidiary - and Philadelphia-based Commonwealth.

Freddie Mac - the Federal Home Loan Mortgage Corp. - does not buy such loans but is evaluating the idea, according to a spokeswoman.

The concept of a 97% loan-to-value program grew out of the "3/2" lending initiatives operated by the secondary marketing agencies and some state and local authorities. These programs allow homebuyers to put 3% of their own funds down if supplemented by 2% from gifts or grants.

"We have been underwriting that risk for several years now and found our results to be acceptable," said James Miller, president of Commonwealth.

Because lending with such extremely low equity can be risky, the programs will require borrowers to undergo counseling and lenders to monitor the loans more actively than usual.

Fixed-Rate Loans Only

Under MGIC's program, borrowers will receive at least half a day of education as well as follow-up counseling that can extend for months, according to Mr. Steinbach. Only fixed-rate loans will be made, and borrowers must conform to income and debt load limits, he added.

Though insurers say they are comfortable with the risks of loans with low down payments, some analysts aren't so sure.

"We remain extremely cautious about the trend," said Bill Boak of Moody's Investors Service. "As you do get up to the higher LTVs, risk does increase above what we view as optimum levels." □

News Release

MGIC

Mortgage Guaranty Insurance Corporation

MGIC Plaza, P.O. Box 488, Milwaukee, Wisconsin 53201

FOR IMMEDIATE RELEASE

Contact: Patricia Neale
(414) 347-2681

MGIC EXPANDS COVERAGE TO INCLUDE 97 PERCENT LTV MORTGAGES
-- 3 Percent Down Payment Program Targets
Low- and Moderate-Income Home Buyers --

MILWAUKEE, Wis., February 14, 1994 -- Mortgage Guaranty Insurance Corporation (MGIC) today announced it will expand insurance coverage to include 97 percent loan-to-value (LTV) mortgages as part of the company's ongoing efforts to promote affordable housing. MGIC's 3 percent down payment program is being targeted to low- and moderate-income borrowers, and to households purchasing homes in designated central city neighborhoods.

Under the new program, only a 3 percent down payment would be required from the borrower's funds, waiving the additional 2 percent portion of the down payment required under standard and "3/2" down payment programs. Under standard mortgage insurance programs, the 5 percent down payment comes from borrowers' funds. In addition, "3/2" down payment affordable housing programs allow 3 percent to come from borrowers' funds, and an additional 2 percent from other sources such as gifts and grants.

-more-

ADD ONE, MGIC 3 Percent Down Payment Program

MGIC's expanded 97 percent LTV coverage will be available in most states pending regulatory approval, with the exception of Arizona, Florida, Idaho, Illinois, Kansas, Missouri, New Jersey, New York, Ohio, and Oregon, where mortgage insurers are presently limited to insuring 95 percent LTV loans.

MGIC will underwrite 97 percent LTV mortgages for low- and moderate-income home buyers using standard affordable housing underwriting guidelines, such as Fannie Mae's Community Home Buyer Program guidelines. The new program puts particular emphasis on borrower education and proactive mortgage loan servicing.

For 3 percent down payment mortgages insured as part of the program, MGIC will require:

- * Fannie Mae and Freddie Mac approved pre-purchase home buyer education or counseling;
- * Cash reserves for deferred maintenance or property repairs when it is determined through an appraisal or home inspection that there is material deferred maintenance or the property needs significant repairs, and;
- * Enhanced mortgage loan servicing requiring that the borrower be contacted within 21 days of the payment due date when delinquencies occur.

ADD TWO, MGIC 3 Percent Down Payment Program

MGIC's "Home Buyer" counseling program, which is Fannie Mae and Freddie Mac approved, will be available to lenders insuring 97 percent LTV mortgages. In addition, "Preserving Homeownership," MGIC's default counseling program for lenders and community based organizations, will be provided as needed to help lenders and community based organizations proactively service these loans in shorter time-frames.

"In light of the positive impact "3/2" down payment programs have had on the affordable housing marketplace, MGIC views the 3 percent down payment option as the next logical step in helping more borrowers overcome the down payment barrier to homeownership," said Gordon H. Steinbach, executive vice president, Affordable Housing. "Because we are trying a new approach, it's very important that these borrowers receive quality pre-purchase counseling. In addition, MGIC will work closely with lenders to provide enhanced loan servicing to assist borrowers, should they have trouble paying their mortgage on time."

MGIC is a leading provider of private mortgage insurance coverage in the United States. Private mortgage insurance covers residential first mortgage loans and expands homeownership opportunities by enabling people to purchase homes with less than 20 percent down payments. Private mortgage insurance also facilitates the sale of low down payment first mortgage loans in the secondary mortgage markets.

FACT SHEET
MGIC's 97 Percent LTV Program
Underwriting Guidelines

Education:

MGIC will offer 97 percent LTV coverage with certification that a borrower has completed home buyer counseling or classroom education on the home-buying process and responsibilities.

Loan Product:

15- and 30-year fixed-rate, fixed payment loans on owner-occupied principal residences.

Loan Type:

First mortgages on purchase transactions. No refinances.

Ratios:

33 percent maximum monthly housing expense-to-income; 38 percent maximum monthly total debt-to-income; based on the borrower's stable gross monthly income. Higher ratios will be considered if there are strong, positive offsetting factors present. For example, little or no monthly housing expense increase and a history of meeting monthly obligations in a satisfactory manner.

Reserves:

MGIC will generally waive the PITI reserve requirements for loans submitted under this program. However, cash reserves will be required when the appraisal or property inspection indicates material deferred maintenance or repairs.

Credit:

Borrowers must have a history of good credit. If the prospective borrower has not previously used credit, MGIC will accept other evidence covering a minimum period of 12 months demonstrating timely payment of obligations (such as rent, telephone and electric bills).

Down Payment:

Minimum equity requirement is 3 percent. Borrowers must provide this 3 percent from their own funds.

Income/Location Restrictions:

Borrowers must conform to the income and location restrictions set forth by FNMA's and FHLMC's 3/2 affordable housing programs.

Loan Servicing

Lenders who insure 97 percent LTV loans with MGIC will be expected to provide enhanced servicing. The enhanced servicing will generally have the delinquent borrower contacted within 21 days of the payment due date in case of a delinquency. The contact may be by the lender, a community based organization or other appropriate party. MGIC will provide its delinquency counseling program, "Preserving Homeownership," to participating lenders and community based organizations.

**The Governor's Commission
on
Housing and Homelessness**

Joan Finney, Governor

Karen Herrman, Chairperson
Noelle St. Clair, Vice-Chairperson

**TESTIMONY ON PROPOSED AMENDMENT TO
SENATE BILL 490**

March 3, 1994

Wm. F. Caton

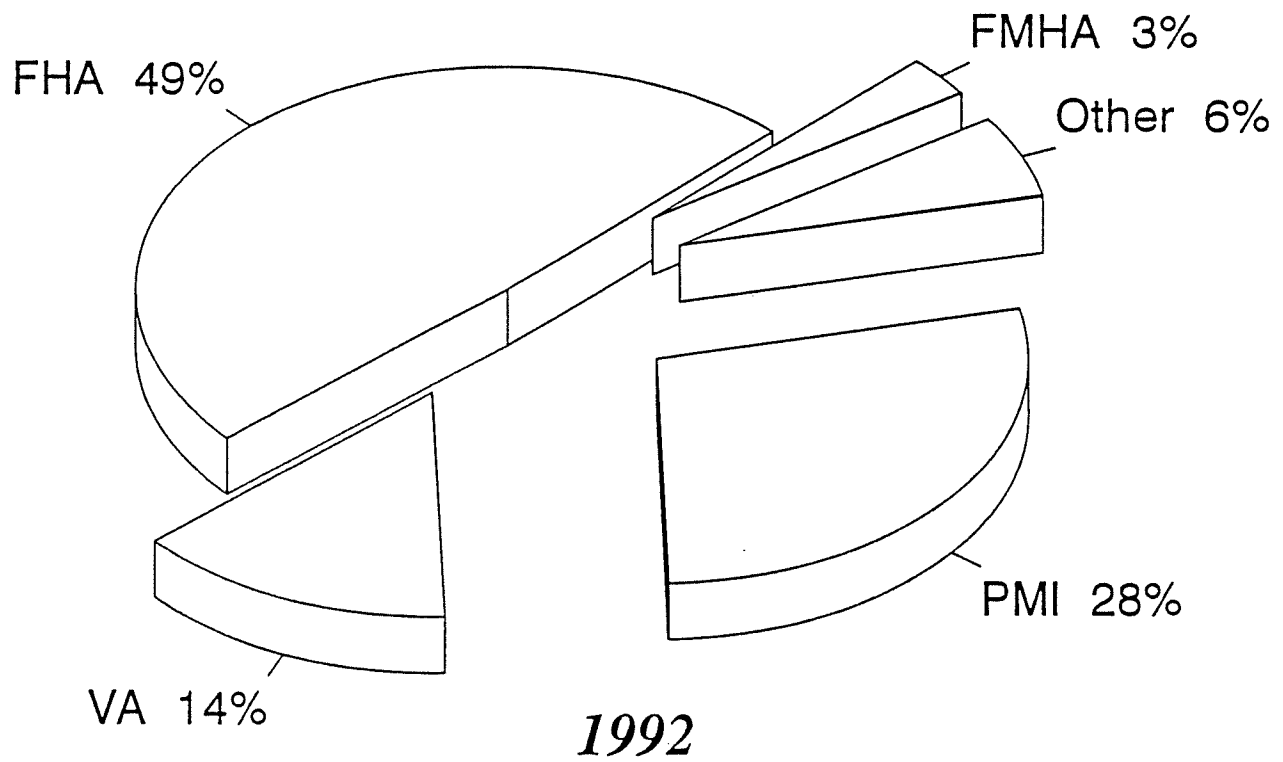
The Governor's Commission on Housing and Homelessness strongly supports the proposed amendments to S.B. 490 which would increase the statutory ceiling on private mortgage insurance coverage from 95% to 97%. This increase will enhance the ability of low and moderate income families to purchase decent, affordable, safe and accessible housing through conventional mortgage lenders.

Attached is information prepared by Standard and Poors which graphically displays the financial soundness of the private mortgage insurance industry. Their substantial capital accumulation will support the additional risk they will bear by increasing their mortgage insurance ratio.

Please consider amending S.B. 490 to help Kansans of moderate means obtain home ownership.

*House File
Attachment 5
March 3, 1994*

Mortgage Trends

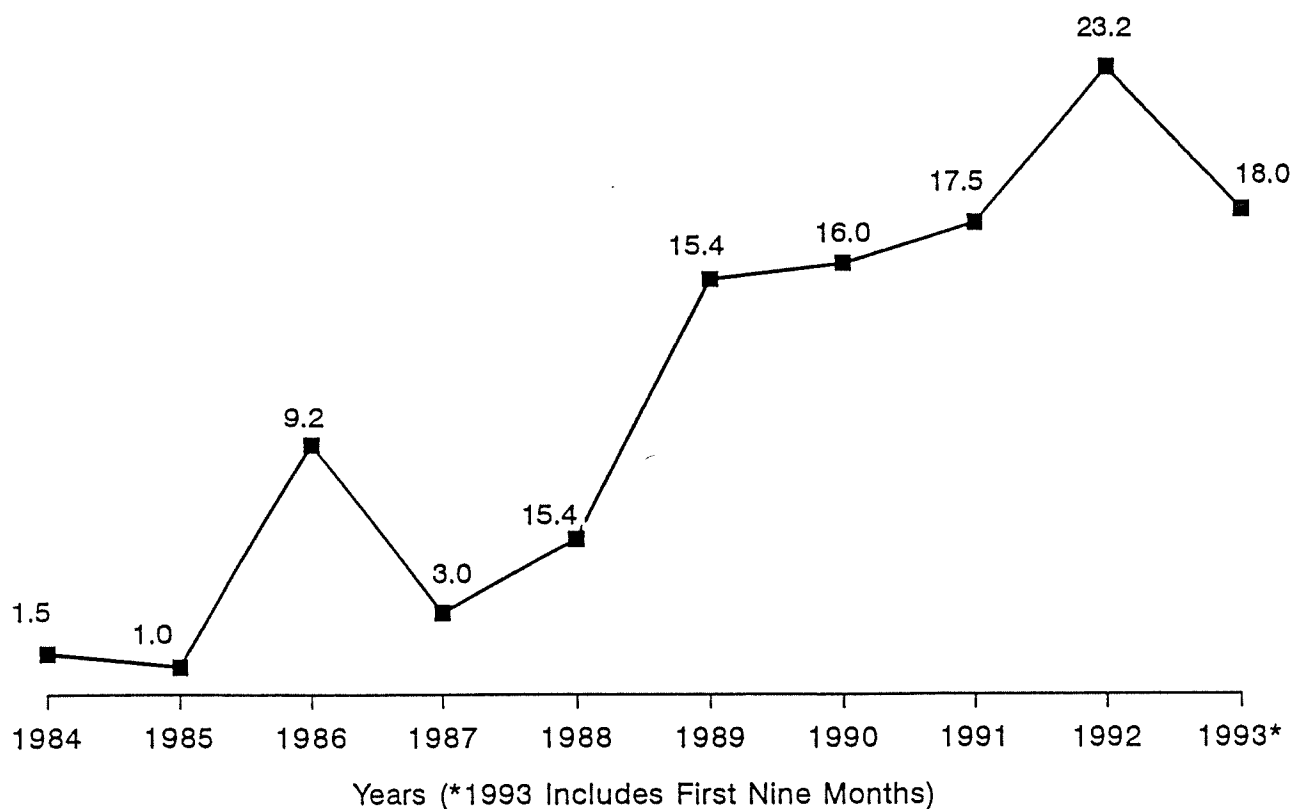




Return On Equity

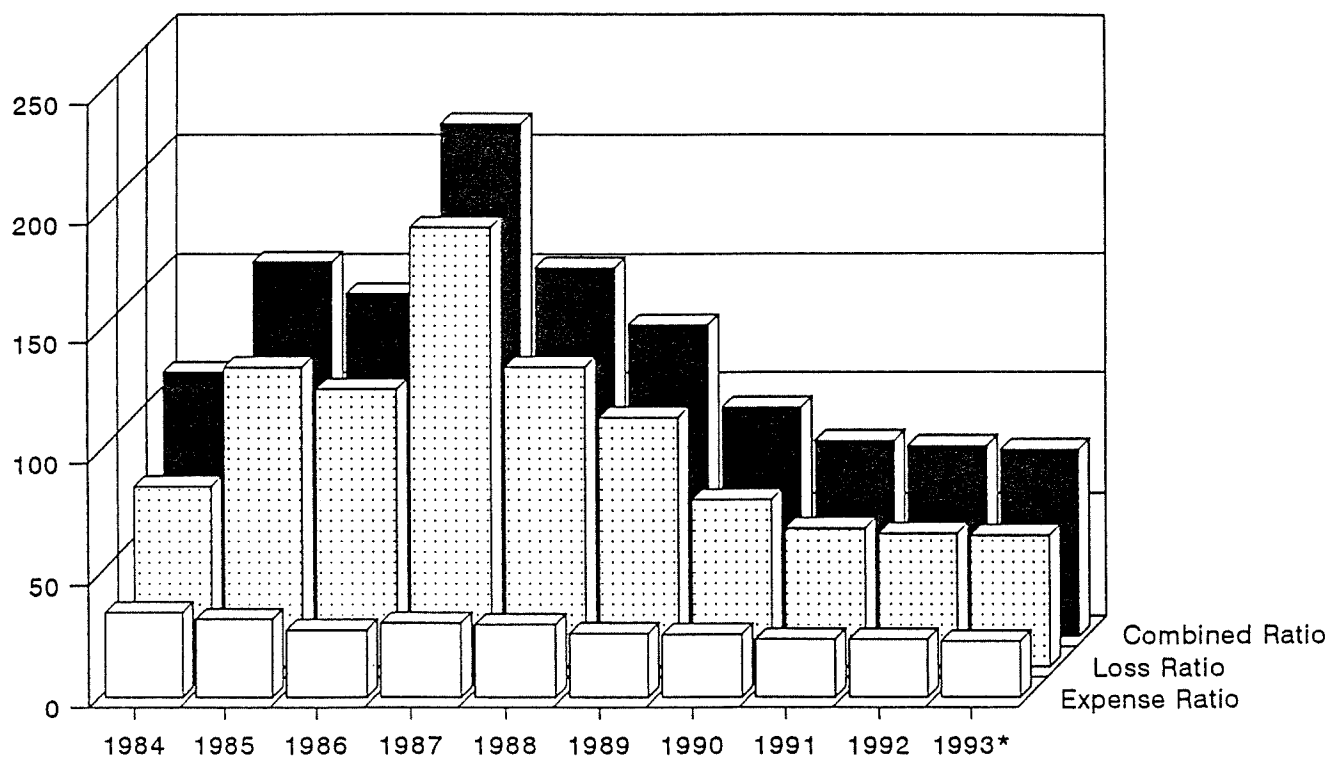
Active Private Mortgage Insurers

Percent (%)





Combined, Loss & Expense Ratios

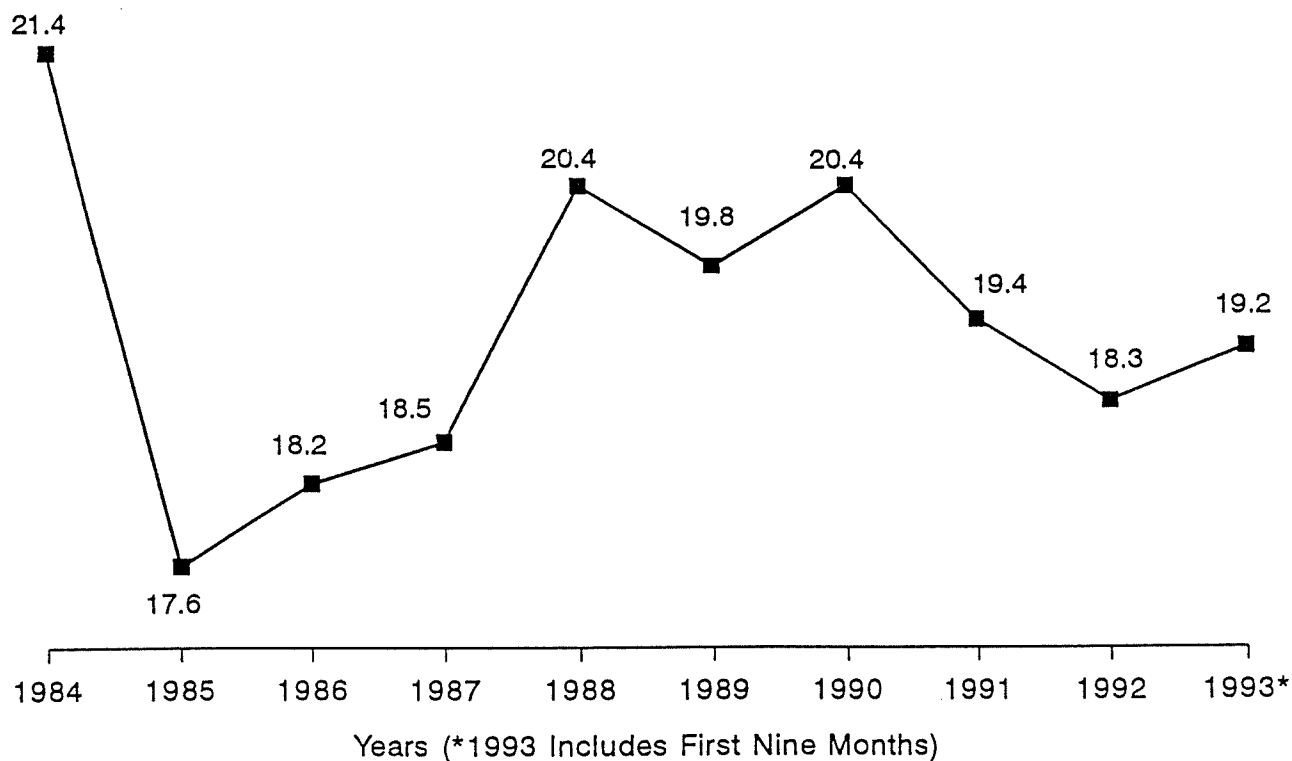


** Nine Months Ended September 30, 1993*

Risk-To-Capital Ratios

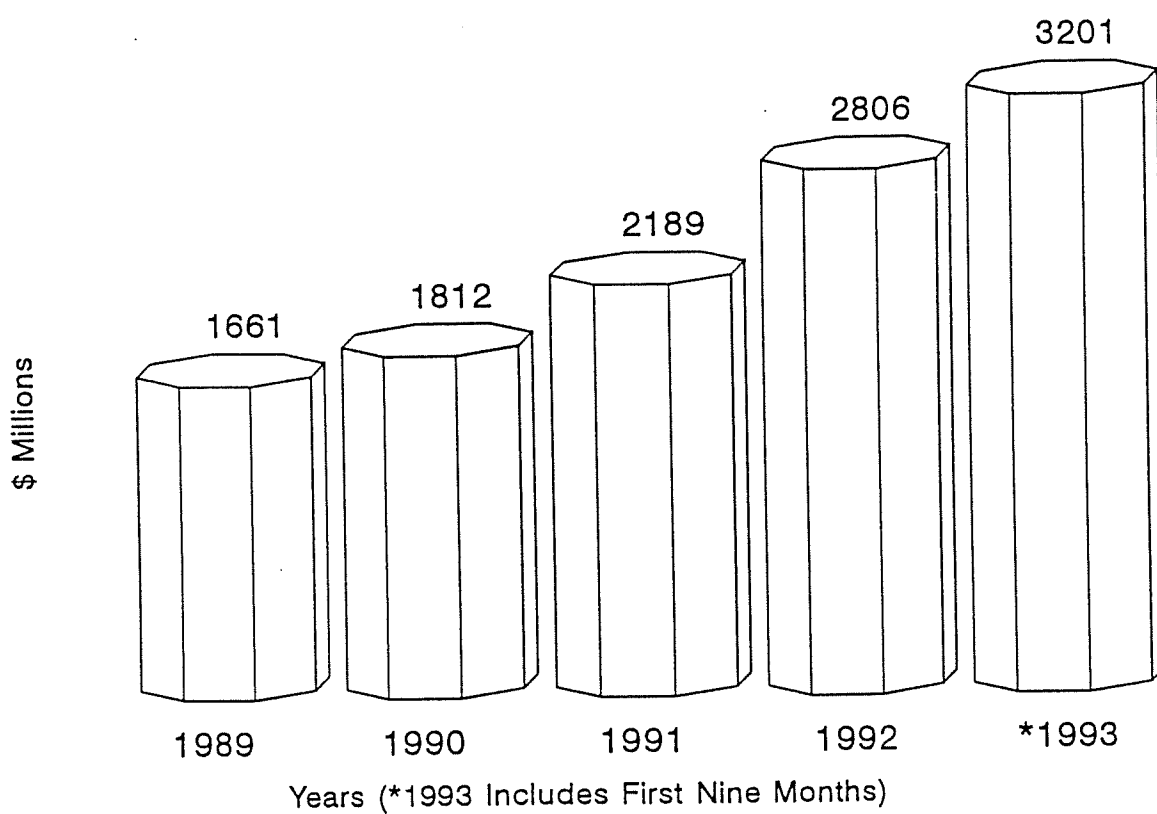
Active Private Mortgage Insurers

Percent (%)



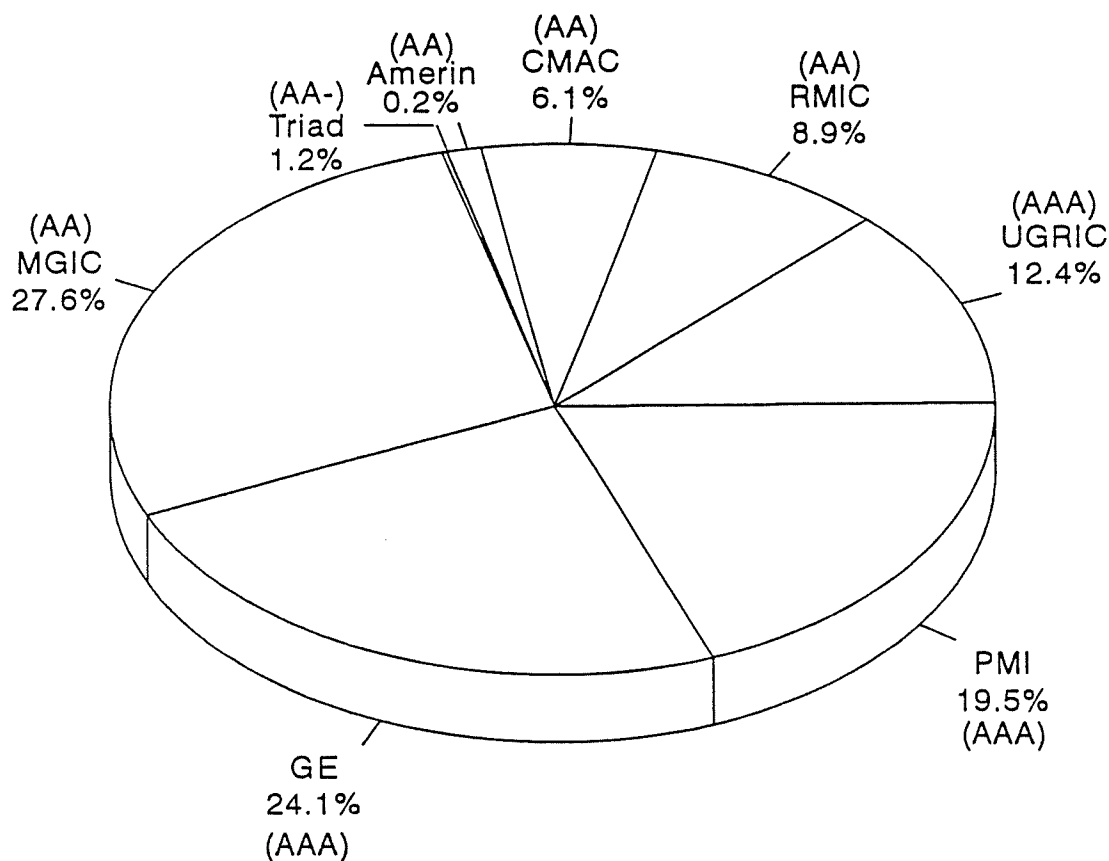
Total Capital

Active Private Mortgage Insurers



Primary PMI Market Share*

(Private Mortgage Insurance)



* Percentage of New Insurance Written for the Nine Months Ended September 30, 1993. Amerin--Amerin Guaranty Corp. CMAC--Commonwealth Mortgage Assurance Co. GE--General Electric Mortgage Insurance Corp. MGIC--Mortgage Guaranty Insurance Corp. PMI--PMI Mortgage Insurance Co. RMIC--Republic Mortgage Insurance Corp. Triad--Triad Guaranty Insurance Corp. UGRIC--United Guaranty Residential Insurance Corp.

5-7

The Kansas Bankers Association

1500 Merchants National Bank Bldg.

Topeka, KS 66612

913-232-3444 FAX 913-232-3484

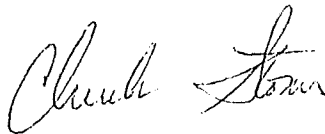
TO: House Financial Institutions and Insurance Committee

FROM: Chuck Stones, Director of Research

RE: Amendments to SB 490

Mr. Chairman and Members of the Committee:

The Kansas Bankers Association appreciates the opportunity to appear before you to support the proposed amendments to SB 490. This amendment to KSA 40-3502 would allow Kansas banks to participate in new programs initiated at the national level by the major mortgage insurers. These programs are designed to allow greater access to mortgage loans by low and moderate income borrowers. We support this amendment and request your favorable action.



James F. D. P.

Attachment 6

March 3, 1994

Testimony on
Senate Bill No. 491

by

Bob Hayes

Kansas Insurance Department

Senate Bill No. 491 proposes to amend K.S.A. 40-2,130 and 40-2,135 which pertain to the regulation of managing general agents. Managing general agents are independent entities which insurance companies may contract with to perform various management functions of the company including producing, underwriting, paying claims and obtaining reinsurance. In 1990, the Insurance Department proposed these laws to address solvency problems and regulatory concerns associated with a company's use of managing general agents. As a result of the significant management decisions made by managing general agents and the lack of knowledge many companies had with respect to the risks being assumed, some companies were forced into liquidation. The statutes enacted in 1990, which were also needed for the Insurance Department to become accredited under the National Association of Insurance Commissioners' Financial Regulation and Standards Program, impose certain restrictions and obligations on managing general agents and the companies that contract with them.

Specifically, Senate Bill No. 491 would exempt third party administrators from the definition of a managing general agent. Third party administrators, which are regulated under Article 38 of the Insurance Code, are independent entities employed by life and accident and health insurers to collect premiums and pay claims on behalf of such insurers. Even though we did not intend for third party administrators to fall under the statutes regulating managing general agents and thus be subject to dual regulatory requirements, the fact is that because of the definition of "managing general agent" they do so. Consequently, the enactment of this proposal would clearly exempt registered third party administrators from those statutes regulating managing general agents.

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The proposed amendment to K.S.A. 40-2,135 is technical in nature. This law sets forth three separate actions which the Commissioner may take when a violation of the statutes regulating managing general agents occurs. As presently drafted, the law could be interpreted to imply that the second and third actions listed must be taken together. The amendment would make it clear that the Commissioner may order any one of the actions or any combination thereof.

Testimony on
Senate Bill No. 492

by

Bob Hayes

Kansas Insurance Department

In December 1991, the Kansas Insurance Department became one of the first nine state insurance departments in the United States to become certified under the National Association of Insurance Commissioners' (NAIC) Financial Regulation and Standards Program. The purpose of the program is to create national standards for financial regulation which will improve and strengthen the state regulatory system of insurance and the safety and soundness of insurance companies.

In order to maintain our accreditation, Senate Bill No. 492 represents one of four new standards which Kansas must adopt by January 1, 1996. However, it is important to note that maintenance of NAIC accreditation is a secondary consideration. The fact is the enactment of these proposals would produce a more effective, efficient and consistent regulatory environment which is in the best interests of all insurance consumers including those in Kansas.

Specifically, this proposal would amend K.S.A. 40-225 by authorizing the Commissioner of Insurance to adopt regulations requiring insurance companies to file their annual financial statement information on an electronically-readable means such as a diskette or otherwise. By receiving such information on computer diskette, both the Insurance Department and NAIC could immediately begin analyzing insurance company financial data without first having to manually enter it onto the computer. In addition, many of the preliminary audits and cross checks can be automated.

Since Kansas is one of only five states that currently does not require insurance companies to make their filing on computer diskette, virtually all companies which operate in Kansas and at least one other state are already submitting their financial statements to the NAIC or to such other state on

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computer diskette. As a result, this legislation will not have a massive impact by requiring insurers to implement new computer programs or technology. The vast majority are already doing so and, in fact, support the opportunity to file their financial statements on tape, diskette or whatever medium is ultimately required. Senate Bill No. 492 could, however, require some Kansas insurance companies that do not operate outside our state and which previously have not been required to file their financial statement on computer diskette to begin doing so.

Testimony on
Senate Bill No. 506

by

Bob Hayes

Kansas Insurance Department

Senate Bill No. 506 proposes to amend K.S.A. 40-203 so that a domestic insurance company or fraternal benefit society may be organized and can preserve its name despite the fact that it may not yet have a certificate of authority to do business in Kansas.

In 1978, one of our Kansas life insurance companies, Alliance Life Insurance Company, was sold to a foreign insurer. After a number of subsequent sales and changes in ownership, the company was merged out of existence in 1993. The Kansas group of companies, Alliance Insurance Companies, which owned a substantial interest in the company before it was initially sold would like to preserve the name in the event life insurance becomes part of their operating structure in the future. However, in order to preserve the company's name at the present time, under K.S.A. 40-203, the company would have to be a licensed insurer. Senate Bill No. 506 would allow the name of the company to be preserved as soon as it is organized under the laws of Kansas.

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FARMERS ALLIANCE MUTUAL INSURANCE COMPANY

P.O. BOX 1401

McPHERSON, KANSAS 67460-1401

(316) 241-2200

To: House Committee on Financial Institutions and Insurance

Re: Senate Bill No. 506

Mr. Chairman, members of the committee, thank you for allowing me to make a brief statement on Senate Bill 506. I am William L. Mitchell, general counsel to the Alliance Insurance Companies.

Senate Bill 506 is important to our companies in that it provides for the commissioner of insurance to approve the usage of the name of a domestic insurer and therefore preserving a namesake.

Most recently the Alliance Life Insurance Company name became available for us to retain in our group of companies. The Alliance Life Insurance Company was never owned by our companies, but rather was held by our pension fund and a few other investors. The Commissioner of Insurance requested that such a large holding by a pension fund should be dissolved. Therefore, in 1978 the companies were sold. Since that time the companies have moved from various holding companies until the most recent availability of the name in June of 1993.

The following is a sequence of the transactional events for the Alliance Life Insurance Company.

Date Organized: 10/15/58 Stock Company

Date Admitted: 12/30/58 Kansas

Acquired by Western States, 8/31/78

Acquired KFIR Holding Co., Mark Herman, 12/16/85

Acquired by First Commonwealth Corporation, 12/1/89

Acquired by United Trust Group, 6/15/92

Merged With and Into Universal Guaranty Life Insurance Company, 6/30/93

Name is now available for preservation.

Because of these circumstances we respectfully request that you support Senate Bill 506.

TRUST YOUR FUTURE TO A PROVEN PAST.

ALLIANCE COMPANIES

Farmers Alliance Mutual Insurance Co.

Alliance Insurance Co., Inc.

Alliance Indemnity Co.

Blakely Crop Hail, Inc.

North Central Crop Insurance, Inc.

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