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**AB-1645 Mortgage guaranty insurance.** (2015-2016)

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**Assembly Bill No. 1645**

**CHAPTER 62**

An act to amend and repeal Section 12640.09 of the Insurance Code, relating to insurance.

[ Approved by Governor July 22, 2016. Filed with Secretary of State July 22, 2016. ]

**LEGISLATIVE COUNSEL'S DIGEST**

AB 1645, Dababneh. Mortgage guaranty insurance.

Existing law, beginning January 1, 2018, requires, among other things, that a mortgage guaranty insurer limit its coverage to no more than a net of 30% at risk of the entire indebtedness to the insured for the class of insurance that insures against financial loss by reason of nonpayment of principal, interest, and other sums under any evidence of indebtedness secured by a mortgage, deed of trust, or other instrument constituting a first lien or charge on a residential building or a condominium unit or buildings designed for occupancy by not more than 4 families. Existing law, beginning January 1, 2018, also authorizes a mortgage guaranty insurer to extend its coverage for this class of insurance beyond the established limits if the excess is insured by a contract of reinsurance.

This bill would delete the above provisions.

Vote: majority Appropriation: no Fiscal Committee: no Local Program: no

**THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:**

**SECTION 1.** Section 12640.09 of the Insurance Code, as amended by Section 1 of Chapter 105 of the Statutes of 2012, is amended to read:

**12640.09.** (a) A mortgage guaranty insurer shall limit its coverage for the class of insurance defined in paragraph (3) of subdivision (a) of Section 12640.02 to no more than a net of 30 percent at risk of the entire indebtedness to the insured or, a mortgage guaranty insurer may elect to pay the entire indebtedness to the insured and acquire title to the authorized real estate security.

(b) (1) A mortgage guaranty insurer shall limit its coverage for the class of insurance defined in paragraph (2) of subdivision (a) of Section 12640.02, to no more than a net of 30 percent of risk of the combined indebtedness of all existing mortgage loan amounts secured by all liens or charges on the real estate. Instead, a mortgage guaranty insurer may elect to pay the entire indebtedness to the insured and acquire title to the authorized real estate security.

(2) Notwithstanding paragraph (1), a mortgage guaranty insurer may elect to insure a portfolio of loans secured by instruments constituting junior liens on real estate, if the total amount at risk in any one portfolio shall not at any time exceed 20 percent of the original principal amount of mortgage loans secured by junior liens.

(3) If the borrower is required to pay the cost of insurance written under paragraph (1) or (2), the lender shall disclose in writing to the borrower that the borrower is not a party to or a beneficiary of the mortgage guaranty insurance policy.

(4) Notwithstanding subdivision (a) and paragraph (1) of subdivision (b), if Freddie Mac or Fannie Mae increases the required amount of mortgage guaranty insurance, the commissioner may adopt regulations to increase the maximum coverage limitation of a mortgage guaranty insurer to an amount not to exceed a net of 35 percent of risk of the entire indebtedness.

(c) Notwithstanding subdivision (a) or (b), a mortgage guaranty insurer may extend its coverage for the class of insurance defined in paragraphs (2) and (3) of subdivision (a) of Section 12640.02 beyond the limits established by subdivisions (a) and (b) of this section, if the excess is insured by a contract of reinsurance.

(d) (1) Notwithstanding any law to the contrary, mortgage guaranty insurance or reinsurance may be ceded by contract, if the assuming insurer is either of the following:

(A) A mortgage guaranty insurer, which may be under common control with the ceding mortgage guaranty insurer, but which does not own, and is not owned by, in whole or in part, directly or indirectly, the ceding mortgage guaranty insurer.

(B) An insurer or reinsurer, that may be under common control with the ceding mortgage guaranty insurer, but that is not owned by, in whole or in part, directly or indirectly, the ceding mortgage guaranty insurer or another mortgage guaranty insurer, that writes any type or types of insurance or reinsurance and that meets the following requirements:

(i) Has paid-in capital and paid-in surplus totaling at least thirty-five million dollars (\$35,000,000).

(ii) Derives, on an annual basis, at least 50 percent of its premium income from reinsurance; or, alternatively, derives at least twenty-five million dollars (\$25,000,000) of premium income per year from reinsurance.

(iii) Establishes and maintains its share of the reserve liabilities required by Section 12640.16 if licensed in this state, or establishes, maintains, and funds in accordance with Section 922.4 or 922.5, its share of the reserve liabilities required by Section 12640.16 if not licensed in this state.

(iv) Establishes and maintains its share of an amount equal to the greater of either the reserve liabilities required by Section 12640.04 or the policyholders surplus required by Section 12640.05 in a segregated trust which meets the requirements of Section 12640.091.

(2) This section does not permit the assuming insurer or reinsurer to directly write mortgage guaranty insurance.

(3) Any assuming insurer or reinsurer and the ceding mortgage guaranty insurer shall establish and maintain in the aggregate the reserves required by Sections 12640.04 and 12640.16.

(e) This section does not apply to the California Housing Loan Insurance Fund or to any program it may develop in conjunction with any federal or federally sponsored mortgage lender or insurer.

**SEC. 2.** Section 12640.09 of the Insurance Code, as added by Section 2 of Chapter 105 of the Statutes of 2012, is repealed.