

17:46A-2 and 4

LEGISLATIVE HISTORY CHECKLIST

NJSA 17:46A-2; 17:46A-4

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Laws of 1975 Chapter 122

Bill No. A674

Sponsor(s) Orechio

Date Introduced pre-filed

Committee: Assembly Banking & Insurance

Senate Labor, Industry & Professions

Amended during passage Yes No assembly committee substitute enacted

Date of passage: Assembly April 29, 1974

Senate April 21, 1975

Date of approval June 5, 1975

Following statements are attached if available:

Sponsor statement Yes statement on original, none on comm. sub.

Committee Statement: Assembly No

Senate Yes

Fiscal Note No

Veto message No

Message on signing No

Following were printed:

Reports No

Hearings No

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ASSEMBLY, No. 674

STATE OF NEW JERSEY

PRE-FILED FOR INTRODUCTION IN THE 1974 SESSION

By Assemblyman ORECHIO

AN ACT to amend the "Mortgage Guaranty Insurance Act," approved August 12, 1968 (P. L. 1968, c. 248).

1 BE IT ENACTED *by the Senate and General Assembly of the State*
2 *of New Jersey:*

1 1. Section 2 of P. L. 1968, c. 248 (C. 17:46A-2) is amended to
2 read as follows:

3 2. Definitions. The definitions set forth in this section shall
4 govern the construction of the terms used in this act.

5 (a) "Mortgage guaranty insurance" means insurance against
6 financial loss by reason of nonpayment of principal, interest and
7 other sums agreed to be paid under the terms of any note or bond
8 or other evidence of indebtedness secured by a mortgage, deed of
9 trust, or other instrument constituting a lien or charge on real
10 estate.

11 (b) "Authorized real estate security" means an amortized note,
12 bond or other evidence of indebtedness not exceeding 90% of the
13 fair market value of the real estate, secured by a mortgage, deed
14 of trust, or other instrument constituting a first lien or charge on
15 real estate (except that such percentage may exceed 90% where
16 Federal or State programs are available to the borrower on loans
17 involving higher loan-to-value percentages); provided:

18 (1) The real estate loan secured in such manner is one which a
19 bank, savings and loan association, or an insurance company, which
20 is supervised and regulated by a department of this State or an
21 agency of the Federal Government, is authorized to make.

22 (2) The improvement on such real estate is a residential building
23 or buildings **[designed for occupancy by not more than four**
24 **families]**.

EXPLANATION—Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted in the law.

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

27 (i) The lien of any public bond, assessment, or tax, when no
28 installment, call or payment of or under such bond, assessment
29 or tax is delinquent.

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

36 (c) "Contingency reserve" means an additional premium reserve
36A established for the protection of policyholders against the effect of
37 adverse economic cycles.

38 (d) "Policyholders surplus" means the aggregate of capital,
39 surplus and contingency reserve.

1 2. Section 4 of P. L. 1968, c. 248 (C. 17:46A-4) is amended to
2 read as follows:

3 4. Limitations and restrictions for transacting business.

4 (a) Mortgage guaranty insurance may be transacted in this State
5 only by a stock insurance company holding a certificate of authority
6 for the transaction of such insurance, and shall be written only to
7 insure loans secured by authorized real estate securities as defined
8 in section 2 of this act.

9 (b) A mortgage guaranty insurance company shall not insure
10 loans secured by properties in a single housing tract or a contiguous
11 tract in excess of 10% of the insurance company's policyholders
12 surplus. In determining the amount of such risk, applicable rein-
13 surance in any assuming insurance company authorized to transact
14 mortgage guaranty insurance in this State shall be deducted from
15 the total direct risk insured. "Contiguous," for the purposes of this
16 section, means not separated by more than one-half mile.

17 (c) A mortgage guaranty insurance company shall limit its
18 coverage to a maximum of ~~20%~~ 25% of the outstanding balance
19 of the loan insured, but the liability of the insurance company shall
20 in no event exceed the actual loss or as provided in subsection (d).
21 In lieu of paying the percentage of the loan insured as specified in
22 the policy, a mortgage guaranty insurance company may elect to
23 pay the entire indebtedness to the insured and acquire title to the
24 authorized real estate security.

25 (d) ~~A~~ mortgage guaranty insurance company shall limit its
26 coverage to a maximum of 20% of the outstanding balance of the

27 loan insured, but in lieu of complying with subsection (c), the liabil-
28 ity of the insurance company shall in no event exceed 80% of the
29 actual loss. In lieu of paying the percentage of the loan insured as
30 specified in the policy, a mortgage guaranty insurance company
31 may elect to pay the entire indebtedness to the insured and acquire
32 title to the authorized real estate security.】 (*Deleted by amend-*
33 *ment.*)

34 (e) A mortgage guaranty insurance company which anywhere
35 transacts any class of insurance other than mortgage guaranty
36 insurance is not eligible for the issuance of a certificate of authority
37 to transact mortgage guaranty insurance in this State nor for the
38 renewal thereof.

39 (f) Nothing in this act shall be construed as limiting the right of
40 any mortgage guaranty insurance company to impose reasonable
41 requirements upon the lender with regard to the terms of any
42 note or bond or other evidence of indebtedness secured by a mort-
43 gage or deed of trust, such as requiring a stipulated down payment
44 by the borrower.

1 3. This act shall take effect immediately.

STATEMENT

The purpose of this bill is to amend the Mortgage Guaranty Insurance Act to provide that mortgage guaranty insurance can be made available on all residential buildings and not be limited to one- to four-family buildings, and to further provide that the maximum coverage can be 25% of the outstanding balance of the loan and not 20%.

When the Mortgage Guaranty Insurance Act was first enacted, the maximum loan to value percentage authorized to lenders was 90%. With the 20% insurance, the exposure to the lender was reduced to 72%. Subsequently, the Mortgage Guaranty Insurance Act was amended in 1971 to provide for 95% loan to value ratios where government programs were involved. The present 20% limit has the effect of making the exposure 76% rather than 72%.

One of the major programs where this insurance is used is in connection with loans that are purchased by the Federal Home Loan Mortgage Corporation, which requires that there can be no more than a 75% exposure after allowance for private mortgage guaranty insurance. The purpose of the change is to make this type of insurance effective with 95% loans and therefore permit qualified lenders to work out transactions with the Federal Home Loan Mortgage Corporation.

SENATE LABOR, INDUSTRY, AND
PROFESSIONS COMMITTEE

STATEMENT TO
ASSEMBLY COMMITTEE SUBSTITUTE TO
ASSEMBLY, No. 674

—•—
STATE OF NEW JERSEY
—•—

DATED: APRIL 7, 1975

Assembly Bill No. 674 would amend the Mortgage Guarantee Insurance Act to increase the private mortgage insurance maximum from 20% to 25% of the outstanding balance of a loan. This would allow lenders to reduce their risk on high loan-to-value mortgages. If risk is too high, lenders are prevented by law from participating fully in federal mortgage programs.

This bill also amends the law to enable financial institutions to utilize private mortgage insurance for residential buildings, the principal use of which is residential, with minor use for commercial or business purposes. Present law covers only buildings designed for use by not more than four families.