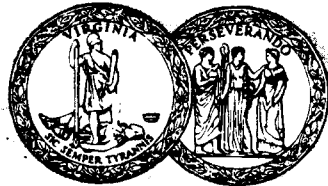


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STATE CORPORATION COMMISSION BUREAU OF INSURANCE

August 19, 1981

Administrative Letter 1981-9

TO: All Mortgage Guaranty Insurance Companies
Licensed in Virginia

The purpose of this letter is to address you concerning two specific areas involved in the writing of mortgage guaranty insurance policies.

Manual of Rates and Rules

First, the Bureau's experiences last year during the mortgage guaranty insurance market conduct study indicated that the present method of filing rules and rates for mortgage guaranty insurance is unsatisfactory. These problems would not have existed if rates and rules had been filed in a manual for each company.

Therefore, I am directing each mortgage guaranty insurance company licensed in Virginia to refile forthwith all rules and rates presently on file with this office in an 8½" x 11" hardcover binder manual format. The binder should bear the name of the company.

Each company should have its rates and rules manual on file with the Bureau by October 1, 1981. Please let me know if this poses a severe problem for your company. After that date rate and rule filings must be in the form of amendments to the manual.

Insurance for Variable Rate Mortgages

Second, the appearance of variable rate mortgages in a variety of forms raises a number of important policy issues regarding mortgage guaranty insurance. Of particular concern is the possibility of negative amortization that can arise under such mortgages. This appears to add an interest rate risk to the credit risk mortgage guaranty insurers have been insuring.

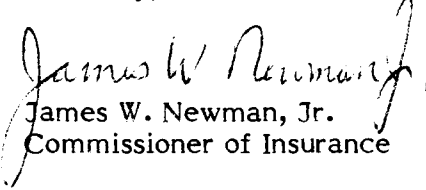
Several mortgage guaranty insurance companies have attempted to respond to the appearance of variable rate mortgages by submitting filings to the Bureau using a variety of approaches. My staff and I feel the necessity to study this matter carefully before approving any of these filings. To assist us in this regard I ask that you provide me with a statement setting forth your perspective on the issues involved

in insuring variable rate mortgages. This statement should include a discussion of available alternatives, a discussion of the advantages and disadvantages of the alternatives, and the approach preferred by your company. Based on a review of these statements and other materials, my staff and I will develop guidelines for insuring variable rate mortgages in Virginia.

Pending the development of the Bureau's position on this issue, I request that any company that previously filed rates, rules, or forms covering variable rate mortgages should withdraw them at this time if you have not already done so.

I sincerely appreciate your prompt attention to both of these matters. Both are important to the quality of regulation of mortgage guaranty insurance in Virginia.

Sincerely,


James W. Newman, Jr.
Commissioner of Insurance

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