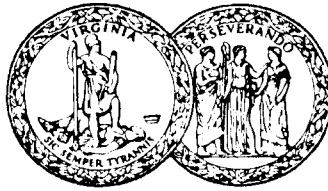


JAMES W. NEWMAN, JR.
COMMISSIONER OF INSURANCE

W. G. FLOURNOY
FIRST DEPUTY COMMISSIONER



BOX 1157
RICHMOND, VA. 2320
TELEPHONE (804) 786 -

STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

September 11, 1981

Administrative Letter 1981-12

TO: All Mortgage Guaranty Insurance Companies Licensed in Virginia

The purpose of this letter is to clarify and expand on two issues addressed in Administrative Letter 1981-9.

The concern that my staff and I have about mortgage guaranty insurance on variable rate mortgages is primarily directed toward negative amortization and its effect on credit risk. Therefore, I want to modify the blanket directive contained in Administrative letter 1981-9 regarding insurance on all types of variable rate mortgages. Effective immediately, any Virginia licensed mortgage guaranty insurance company may insure variable rate mortgages provided there is no potential for negative amortization of the loan balance and provided there has been appropriate filing of rates, rules and forms for such insurance.

This policy will allow the mortgage guaranty insurance companies to continue to serve the traditional market as well as a portion of the variable rate mortgage market.

In my previous letter, I requested a written statement regarding your views on the adjustable rate mortgage and negative amortization issues. In order to assist my staff in researching these problem areas and developing policy options, I again request that if you have not yet provided us with written statements regarding your analysis of the problems and available options, please do so. Because I want to resolve this in a timely manner, I ask that you respond within two weeks of receipt of this letter.

I sincerely appreciate your prompt attention to this request.

Sincerely,

A handwritten signature in cursive script that reads "James W. Newman, Jr."
James W. Newman, Jr.
Commissioner of Insurance

JWNjr/dj