U.S. Mortgage Insurers

September 15, 2014

BY ELECTRONIC SUBMISSION

Federal Housing Finance Agency
Office of Budget and Financial Management
Constitution Center
400 7th Street, SW
Washington, D.C. 20024

Re: Request for Input – Federal Housing Finance Agency Strategic Plan (2015–2019)

Ladies and Gentlemen:

U.S. Mortgage Insurers ("USMI") is a trade association composed of the following private mortgage insurance companies: Arch Mortgage Insurance Company, Essent Guaranty, Inc., Genworth Financial, Mortgage Guaranty Insurance Corporation, National Mortgage Insurance Corporation, and Radian Guaranty Inc. USMI welcomes the opportunity to submit comments on the request for input from the Federal Housing Finance Agency ("FHFA" or "Agency") regarding the Agency's strategic plan for fiscal years 2015 through 2019 ("Plan").[1] USMI believes that FHFA's Plan should take into account mortgage insurance's ("MI") role as a reliable source of credit enhancement that can help advance and support the strategic goals of the Plan.

USMI appreciates FHFA's recognition in the Plan of the significant efforts that have been completed and that are underway to strengthen MI counterparty standards. MI master policies have been developed in conjunction with Fannie Mae, Freddie Mac (collectively, the "Enterprises"), and FHFA that provide assurances about the consistent handling and payment of claims and bring greater transparency to contractual protections for lenders and investors with regard to representations and warranties. In addition, the Enterprises and FHFA have issued revised private mortgage insurer eligibility requirements ("PMIERs") that, when finalized, will confirm the long-term value of MI for mortgage borrowers, lenders, and taxpayers. USMI members remain united in support of the need to update the PMIERs and will continue to work closely with FHFA and the Enterprises to finalize and implement the requirements.

At the same time, however, USMI would like to reiterate that MI currently produces substantial benefits as a form of credit enhancement for the Enterprises and the U.S.

[1] *See* FHFA News Release, FHFA Requests Input on Agency Strategic Plan for 2015-2019 (Aug. 15, 2014).

housing finance market. These benefits help taxpayers, borrowers, and lenders and, as described in greater detail below, support achievement of the Plan's strategic goals, in particular to ensure liquidity, stability, and access in housing and to manage the Enterprises' conservatorships. For example, MI provides a source of private capital – the importance of which was highlighted in the Plan – that serves to reduce the risk to taxpayers from the Enterprises' operations and to simplify such operations by providing credit enhancement that enables the Enterprises to support low down payment mortgages with loan-to-value ratios ("LTVs") in excess of 80 percent. Without MI, many borrowers, especially first-time homebuyers and low-to-moderate income homebuyers, would not be able to afford the purchase of a home. MI thus ensures liquidity for a critical part of the residential mortgage market. Further, to the extent that borrowers experience financial hardship, mortgage insurers work with servicers to help borrowers avoid foreclosure through loan modifications and other loss mitigation alternatives.

In addition, the MI industry is unique in providing lenders, large and small, with a competitive, affordable and readily accessible way to reduce credit risk with private capital. Lenders and borrowers benefit from MI's transparent pricing and credit terms. MI enables lenders to provide borrowers with qualification and cost information at time of application. Lenders have the option of having mortgage insurers underwrite the loan for MI, providing added confidence for the lender to make the loan. MI is also fully compatible with the highly liquid GSE ("TBA") securitization market that allows lenders to "lock in" interest rates for borrowers during the application process and to securitize loans after closing.

In particular, MI produces benefits compared to credit enhancement that takes the form of structured finance. MI is placed by lenders before the loans are guaranteed by the Enterprises, transferring risk before taxpayer backing and simplifying Enterprise operations. MI has also proven to be a more reliable form of credit enhancement than structured finance during periods of financial distress. For these reasons, it is a preferable option compared to structured finance in many cases.

MI is able to provide these benefits because of its loan-level emphasis, first loss risk appetite, and counter-cyclical nature. The MI industry, especially with FHFA's efforts to strengthen MI standards, is a competitive industry subject to robust oversight. Three new market participants have entered the industry in the past few years. The industry's focus on a single asset class facilitates comprehensive and targeted risk assessment and oversight by state insurance authorities and FHFA. MI's role as a form of credit enhancement to the housing finance market has required the MI industry to develop standards governing underwriting, quality control, and claims review and therefore to serve as a form of review of creditors' and other market participants' own standards.

The Plan identifies three strategic goals for the Enterprises for 2015 through 2019: (1) ensure safe and sound regulated entities; (2) ensure liquidity, stability, and access in housing finance; and (3) manage the Enterprises' ongoing conservatorships. USMI recommends that FHFA consider the following suggestions regarding how MI can help FHFA advance and support the strategic goals articulated in the Plan:

Ensure Safe and Sound Regulated Entities

- *Expand permissible use of MI by lenders with respect to (1) loans with LTVs that are greater than 80 percent through the use of deeper cover and (2) loans with LTVs of 80 percent or less* – Although MI serves an express credit enhancement role by virtue of the Enterprises' chartering statutes, MI's role should not be limited solely to standard cover for loans with LTVs that are greater than 80 percent. Because of the many risk-reducing and market-surveillance benefits described above, FHFA should expand MI's use in the Enterprises' operations (1) where greater levels of MI ("deeper cover") are provided for loans with greater than 80 percent LTVs and (2) to loans with LTVs of less than 80 percent.

- *Ensure MI alternatives are subject to comparable eligibility standards designed to ensure safety and soundness* – FHFA should ensure that alternatives to MI are subject to standards comparable to the PMIERs in order to ensure that such alternatives do not present undue risks to taxpayers, the safety and soundness of lenders, and overall financial stability. Alternatives such as piggyback second mortgages and seller-provided recourse arrangements of six-to-twelve months should be carefully evaluated so that effective standards can be implemented.

- *Continue to support the Enterprises' standard cover regime* – FHFA should continue to support the Enterprises' existing requirements for credit enhancement for low down payment loans known as standard cover. As the current preferred mode of credit enhancement, MI protects the Enterprises down to an effective LTV of roughly 67 percent.

Ensure Liquidity, Stability, and Access in Housing Finance

- *Fully recognize MI in Enterprise guarantee fees* – On August 14, 2014, USMI submitted a comment letter in response to the FHFA request for input regarding the Enterprises' guarantee fees. For reasons described more fully in that letter, FHFA should fully take into account the risk-reducing benefits of MI in calculating guarantee fees.

- *Continue to promote responsible access to credit for creditworthy borrowers* – FHFA should continue to explore opportunities to promote responsible access to credit for creditworthy borrowers. For example, there is a long track record of good performance for prudently underwritten loans with LTVs of up to 97 percent. These loans play a critical role in ensuring broad access to affordable options for qualified borrowers. Given the availability of MI on these loans to mitigate taxpayer risk, the Enterprises should restore widespread access to a prudently underwritten 97 percent LTV fixed-rate mortgage.

Manage the Enterprises' Ongoing Conservatorships

- *Ensure the Common Securitization Platform ("CSP") provides for MI use* – An important priority noted in the Plan is the development of a CSP infrastructure to improve the liquidity of Enterprise securities. MI is an important aspect of the Enterprises' securitization activities. Accordingly, FHFA should ensure proper focus is placed on MI in developing the platform. The platform should not inadvertently disrupt the TBA market, including use of MI on high LTV loans.

- *Increase collaboration with the Federal Housing Administration, National Association of Insurance Commissioners, Federal Insurance Office, and MI industry* – USMI appreciates FHFA's continued willingness to request and incorporate input regarding its Enterprise initiatives, including with respect to important matters involving the Enterprises during conservatorship. These public processes increase transparency as well as the effectiveness of Enterprise oversight of MI. More frequent and regular collaboration between FHFA and the Enterprises and the National Association of Insurance Commissioners, Federal Insurance Office, and the MI industry to discuss developments in housing finance will build on FHFA's requests for input and further enhance the effectiveness of oversight of MI.

By implementing these recommendations, MI can provide meaningful support for FHFA in the various initiatives set forth in the Plan in order to benefit taxpayers, borrowers, and lenders.

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USMI appreciates the opportunity to comment on FHFA's Plan. Questions or requests for further information may be directed to the co-chairs of USMI, Rohit Gupta and Adolfo Marzol, at info@usmi.org.

Sincerely,

U.S. Mortgage Insurers