June 23, 2023

Quincy Tang
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140 Broadway
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Re: Request for Comments on Proposed Mortgage Insurance (MI) Credit Appendix to the RMBS Insight 1.3: U.S. Residential Mortgage-Backed Securities Model and Rating Methodology

Dear Ms. Tang:

U.S. Mortgage Insurers (USMI)[1] is submitting this letter in response to your request for comment on the Proposed Mortgage Insurance (MI) Credit Appendix to the "RMBS Insight 1.3: U.S. Residential Mortgage-Backed Securities Model and Rating Methodology,"[2] which updates RMBS Insight Model 1.3 to include consideration of factors including an MI's willingness and ability to pay to estimate the amount of credit given for private MI. USMI is a trade association comprised of the leading private MI companies in the United States and represents an industry with 66 years of experience underwriting and actively managing single-family mortgage credit risk.

DBRS Morningstar proposes giving credit for private MI in its loss severity analysis for non-GSE RMBS transactions after evaluating: (1) the type of MI coverage; (2) the MI coverage percentage; (3) the financial strength of the MI; and (4) the MI exception rate. USMI supports the proposed changes and appreciates the recognition of the critical risk protection provided by the private MI industry on low down payment loans and the financial strength of the private MI companies. Credit for private MI is supported by historical experience and data that demonstrate the loss severity reduction associated with MI coverage. Urban Institute analysis of GSE mortgages from 1999 through 2022 shows that conventional mortgages with private MI exhibited lower loss severity than conventional loans without private MI for each origination year (26.4% versus 37.6%) and underscores the benefit that could be expected in the non-GSE RMBS market.[3]

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[1] USMI represents the nation's leading private mortgage insurance companies and USMI membership comprises: Enact Mortgage Insurance; Essent Guaranty, Inc.; Mortgage Guaranty Insurance Corporation; National Mortgage Insurance Corporation; and Radian Guaranty, Inc.
[2] DBRS Morningstar, "RMBS Insight 1.3: U.S. Residential Mortgage-Backed Securities Model and Rating Methodology – Request for Comment" (May 23, 2023). Available at https://www.dbrsmorningstar.com/research/414306/dbrs-morningstar-requests-comments-on-proposed-mortgage-insurance-mi-credit-appendix-to-the-rmbs-insight-13-us-residential-mortgage-backed-securities-model-and-rating-methodology.
[3] Urban Institute analysis of Fannie Mae data (loans originated 1Q1999-4Q2022, performance data through 4Q2022) and Freddie Mac data (loans originated 1Q1999 through 3Q2022, performance data through 4Q2022).

Importantly, the private MI industry, along with other mortgage market participants, has implemented significant reforms and enhancements over the last 15 years to improve capital positions, underwriting standards and processes, contractual obligation to insureds, and risk management. These critical enhancements within the MI industry include:

- Private Mortgage Insurer Eligibility Requirements (PMIERs): robust capital and operational requirements for MIs to be "approved insurers" were established and periodically updated by the GSEs. The industry is well capitalized and currently holds nearly $11.1 billion in excess of PMIERs minimum required capital.[4]
- Underwriting: there has been a significant increase in non-delegated underwriting (currently 30-40%) compared to the historical rate of 10-15% prior to the Great Financial Crisis and expanded post-close review processes that reduce rescissions.
- Master Policy and Rescission Relief Principles: the MI industry adopted a new Master Policy on March 1, 2020, that builds upon the much improved 2014 Master Policy to further strengthen coverage and streamline the payment of claims to ensure, in the event of borrower default, that MI results in reliable and predictable payments. The 2020 Master Policy also aligns MIs' Rescission Relief Principles with the GSEs' Representations and Warranties framework.
- Risk Management:
  - Pricing: use of more granular, risk-based and dynamic pricing to better price for mortgage credit risk and tailor risk profile.
  - MI Credit Risk Transfer (CRT): MI-CRT has helped change the MI business model from "buy-and-hold" to "aggregate-manage-distribute" by transferring mortgage credit risk to the global reinsurance and capital markets. From 2015 through 2022, the MI industry issued 51 insurance-linked notes (ILNs) through the capital markets to transfer more than $20.8 billion of risk exposure on nearly $2.2 trillion of notional mortgages.[5] During that same period, MIs also executed 42 quota share (QSR) and excess of loss (XOL) reinsurance transactions to transfer an additional $47 billion of risk to the traditional reinsurance market.[6]

In order to further evaluate the proposal and provide comprehensive feedback, we request additional clarification on the following elements of the model and rating methodology:

1. The underlying assumptions employed to arrive at the base-case exception rate and what is considered a typical rate.
2. Whether the historical data used to determine the MI Exception Rate captures experience that includes the Great Financial Crisis. We believe such data should not be included because extensive post-crisis reforms and enhancement have significantly changed the mortgage lending environment. We encourage DBRS Morningstar to focus on rescission,

[4] As of March 31, 2023 according to private MI company 1Q2023 10-Q filings. Based on aggregate available assets of $26,469,318,000 and required minimum assets of $15,373,549,000.
[5] MI Company Data.
[6] *Id.*

denial, and curtailment activity under the 2014 and 2020 MI Master Policies which were created after and informed by the experience of the Great Financial Crisis.

3. The basis for how DBRS Morningstar derived the multipliers applied to the base-case exception rate. We request clarity on what terms and conditions may be viewed more or less favorably in terms of adjusting the multiple. Specifically, discussion on how early rescission relief provisions and life-of-loan exclusions may be viewed would be helpful.
4. Whether credit will only be applied for private MI rated by DBRS Morningstar or whether ratings from other credit rating agencies will be considered.

USMI would appreciate the opportunity to provide additional comments on the proposal following receipt of the requested clarifications and we welcome any questions you may have regarding our private MI. Please do not hesitate to contact me at sappleton@usmi.org or 202-280-1820 for additional information related to this submission.

Very truly yours,

Seth D. Appleton
President
U.S. Mortgage Insurers