Draft Private Mortgage Insurer Eligibility Requirements

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Introduction

This document contains both requirements as well as guidelines associated with applying for, obtaining, and maintaining *GSE approved insurer* status. *Approved insurers* must meet requirements that are preceded by the term "must" or "shall."

The purpose of this document is to inform *approved insurers* of how the *GSE* will implement the provisions of its charter, which states that the *GSE* may purchase mortgages guaranteed or insured by a qualified insurer as determined by the *GSE*.

This document is intended solely for the use of *approved insurers* and applicants for *approved insurer* status. For the avoidance of doubt, the PMIERs are not intended to have the effect of regulation, which is expressly the domain of regulators, but, rather, they set forth requirements an *approved insurer* must meet and maintain in order to provide mortgage guaranty insurance on loans owned or securitized by the GSE.

Effective Date

These revised approval requirements or *PMIERs* are effective [TBD] for new applicants as well as for those that have been approved in the past under prior mortgage eligibility requirements.

Amendments and Waivers

The *GSE* may in its sole discretion modify, amend or waive any provision of these *PMIERs*, or impose additional requirements, applicable to one or more individual *approved insurers* regardless of their status, or to any entity seeking *approved insurer* status. Any amendments, waivers or modifications to these *PMIERs*, or additional requirements, will be communicated in writing to each *approved insurer* that is subject to the requirement with an effective date specified by the *GSE*. Any waiver of these *PMIERs* must be in writing, and signed by the *GSE*. Any such written waiver, amendment or modification must expressly refer to the provision(s) of the *PMIERs* being waived and be denoted as a waiver of such provision(s).

Defined Terms

All terms in italics are defined in the glossary located at the back of this document. Terms not defined in the glossary are used in the context of standard industry practice. The *GSE* shall determine in its sole discretion the final application and interpretation of any terms contained herein.

100
PMIERs Must be Met at All Times

All *approved insurers*, including *newly approved insurers*, must meet or exceed these published *PMIERs*, conditions of approval or other applicable amendments or waivers made by the *GSE* to these requirements and fulfill any obligations arising hereunder at all times.

An authorized *officer* of the *approved insurer's senior management* team must provide an annual written certification that the *approved insurer* has met all requirements of these *PMIERs.* Except for other *PMIERs* sections that state a different period for notice of a failure to meet, the *approved insurer* must notify the *GSE immediately* upon discovery of its failure to meet any one or more of these *PMIERs,* conditions of approval or other applicable amendments or waivers made by the *GSE* to these requirements. As part of the annual written certification of having met these *PMIERs,* the *approved insurer* must identify any failure to meet any additional requirements placed on the *approved insurer* by the *GSE* and their status.

In accordance with the available and minimum required assets requirements described in Section 704 of these *PMIERs*, an authorized *officer* of the *approved insurer's senior management* team must certify quarterly the accuracy of its reporting of *available assets* and other data used to calculate *minimum required assets* as described in these *PMIERs.*

101
Compliance with Laws

An *approved insurer* must maintain compliance with all *applicable law*.

The *approved insurer* must notify the *GSE* in writing *immediately* upon its determination of *material* noncompliance with any *applicable law*. For purposes of clarification and without limiting the generality of the foregoing, such noncompliance includes the following:

1) a notice, letter, or order from a state or federal authority asserting jurisdiction over an *approved insurer* indicating that: (a)(i) the financial condition of the *approved insurer* is or may be "impaired,"; (ii) the *approved insurer* is or may be "insolvent"; or (iii) the financial condition of the *approved insurer* is or is in danger of becoming "hazardous," as any one or all of those terms are interpreted by the authority asserting jurisdiction, and/or (b) that the *approved insurer* does not meet or is in danger of not meeting any *applicable law* associated with the *approved insurer's* continued ability to write new insurance or to renew insurance previously written. Such notice, letter or order shall be considered an event requiring *immediate* notice to the *GSE* hereunder; even though the *approved insurer* may believe: (i) that it has a well-founded basis for disagreement with the assertion of noncompliance or (ii) that the state or federal authority has not made a final determination as to the noncompliance;

2) any notice, letter, or order of any state or federal authority asserting jurisdiction over the *approved insurer* indicating that the *approved insurer* may not be, or is not, in compliance with an applicable state or federal law, regulation or order other than as described in 1) above, even though the *approved insurer* may believe: (a) that it has a well-founded basis for disagreement with the assertion of noncompliance or (b) that the state or federal authority has not made a final determination as to the noncompliance.

102 Applicable NAIC Regulations

An *approved insurer* is required to maintain compliance with the specific provisions of the *Model Act* referenced in Sections 303, 308 and 802 of these *PMIERs, except to the extent applicable law* conflicts with the *Model Act*, in which case, the *approved insurer* must comply with *applicable law*.

103 Ownership/ Corporate Governance of Approved Insurers

An *approved insurer* that is an *affiliate* of (i) a *mortgage enterprise* and/or (ii) an *affiliate* of a *mortgage enterprise* shall certify in its annual certification that the *approved insurer* has met the following requirements:

1) The *approved insur*er is not the insurer of any mortgage originated by such *mortgage enterprise* and/or *affiliate* of a *mortgage enterprise* to which the *approved insurer* is *affiliated*; and
2) The *approved insurer* is not the insurer of any mortgage originated by any *mortgage enterprise*, for which the servicing or contractual right to service was acquired or performed by such *mortgage enterprise* and/or *affiliate* of *a mortgage enterprise* to which the *approved insurer* is *affiliated*.

The requirements of 1) and 2) above do not apply if subsequent to the insurance of a mortgage by an *approved insurer* that has met the requirements of 1) or 2) above, a *mortgage enterprise* or an *affiliate of a mortgage enterprise* with whom an *approved insurer* is *affiliated* (a) purchases that insured mortgage or (b) acquires the contractual right to service the mortgage, but in either case or in both cases does not (i) re-direct placement of mortgage insurance coverage at renewal to its *affiliated approved insurer* or (ii) service or direct the servicing of the loans insured by its *affiliated approved insurer* in a manner materially different than loans that are not insured by its *affiliated approved insurer*. For example, 1) and 2) are not violated if the *affiliated mortgage enterprise* of an *approved insurer* acquires the contractual right to service a mortgage that is already insured by the *approved insurer*, but the servicing contract mandates that all mortgages, whether insured by an *affiliated approved insurer* or not, be serviced in accordance with the same servicing standards.

An *approved insurer* must also meet the following requirements:

A) The *approved insurer* must document and maintain evidence supporting its having met the requirements of 1) and 2) above and its procedures for certification thereof and share such evidence with the *GSE* upon the *GSE*'s request. The *approved insurer* also must provide the *GSE* annually with certifications by the a*pproved insurer's* external auditors that the *approved insurer* (i) has policies, procedures and controls in place that are adequate to meet the requirements of 1) and 2); (ii) is in compliance with those policies and procedures and, (iii) has received an *Agreed Upon Procedures* report from its external auditors indicating that testing has been performed on such policies, procedures and controls. Should the external auditor identify significant exceptions in the conduct of procedures performed, the *approved insurer* must provide notice to the *GSE immediately*.
B) The *approved insurer* must provide the *GSE immediate* notice of any violation of the requirements of 1) and/or 2) without assessing or making a determination as to whether the violation is *material*.

103 Ownership/ Corporate Governance of Approved Insurers (continued)

C) Regardless of ownership or control of the *approved insurer*, no officer, director, employee or any other representative of a *mortgage enterprise* or *affiliate* thereof may sit on the Audit, Risk Management or Compensation committees of the Board of Directors of an *approved insurer*.

D) The *master policies* must contain a provision requiring that if the servicing rights for a mortgage loan are sold, assigned or transferred in any manner, in order for the coverage of the mortgage loan to continue under the policy, the new servicer must be (i) an entity to which the *approved insurer* has issued a *master policy* or (ii) approved in writing by the *approved insurer*.

200 Application Criteria

An applicant seeking *approved insurer* status must be a corporation in good standing, and duly organized pursuant to and operating in compliance with, *applicable law*.

GSE approval is based on the ability of the applicant to satisfactorily meet these *PMIERs and* any other terms or conditions provided by the *GSE* as a condition of approval, including the approval of the applicant's *master policy*.

201 Application Submission

The applicant must submit (electronically, if required) the forms, information, documentation and certifications required for the application process of the *GSE*. The application submission must include information on the applicant's ownership, management, corporate structure and legal organization, including parental and affiliate relationships. The application submission must include the master policy form(s) that the applicant intends to use to insure loans to be acquired by the *GSE* for primary *mortgage guaranty insurance*, as well as any proposed bulk or pool insurance transactions, if applicable.

Approval of the applicant's *master policy* requires the submission by the applicant of any related documents including, without limitation, policies or procedures provided or intended to be provided to an *insured* or *insureds* regarding the administration and/or interpretation of *master policy* terms and conditions.

The *GSE* will review the application submission as well as any qualitative factors related to the applicant, including an assessment of having met these *PMIERs*, master policies, and review of business practices and operational capabilities. The *GSE* may require additional documents or actions as part of its application review process. Upon approval, the *GSE* will notify the entity of the terms and conditions of approval in writing.

Only one *flagship* will be permitted in any family of insurance companies. Other insurers in the family may be approved by the *GSE* for specific purposes; however, the *approved insurer* status, if any, of these subsidiaries or *affiliates* is dependent on the continued eligibility of the *flagship approved insurer* as the primary writer of *mortgage guaranty insurance*. The *GSE* may approve an insurer with certain conditions limiting its scope of business, and any change will require prior approval by the *GSE*. A request for approval of any entity not previously a *flagship approved insurer* must be made in accordance with these *PMIERs* including, without limitation, the application and fee requirements of Sections 200 through 203 hereof and approval will be granted at the sole discretion of the *GSE*.

202 Application Fee/Other Costs

As reimbursement for internal costs incurred in the *GSE's* review of the application, the applicant must pay to the *GSE* a nonrefundable application fee of $250,000 at the time of filing an application plus, as incurred, any out-of-pocket costs, fees and expenses, including any of the foregoing as are incurred and payable to third parties retained by the *GSE* to assist in its evaluation of the applicant. Additionally, applicants that are granted approval by the *GSE* may be required to pay costs, fees and expenses incurred by the *GSE* to operationally accept and process mortgages insured by the *newly approved insurer*.

203 Newly Approved Insurer Requirements

A *newly approved insurer* must meet the following financial requirements in addition to those described elsewhere in these *PMIERs.* Further, an *approved insurer* that is subject to a *material* change in its ownership, control or organization; or a formerly-*approved insurer* that requests reinstatement following suspension or termination, may, in the discretion of the *GSE*, be treated as a *newly approved* insurer for some or all of these requirements for *newly approved insurers*.

A newly approved insurer must demonstrate initial capital funding in an amount not less than $500 million. This amount may include contributions already made and/or provisions for start-up and formation costs such as those associated with the acquisition or development of an operating platform and supporting technology. Subsequently, the *approved insurer* must then maintain a level no lower than $400 million of *available assets* as described in Section 704 of these requirements.

A *newly approved insurer* must obtain a *rating agency* rating as soon as practicable but no later than 3 years from the date of the *GSE's* approval.

For the first 3 years after the date of the *GSE's* approval, a *newly approved insurer* is prohibited from the following:

1) paying dividends to its *affiliates* or its holding company; or
2) making any investment, contribution or loan to any subsidiary, parent or *affiliate*.

For the first 3 years after receipt of the *GSE's* approval, the *newly approved insurer* must seek and obtain approval from the *GSE* for the following:

1) Any *reinsurance* agreements entered into by the *newly approved insurer* including that referenced in Section 708 of the *PMIERs*;
2) Any risk novation or commutation sought by the *newly approved insurer;*
3) Providing any kind of *mortgage guaranty insurance* beyond primary first lien; and
4) Provision of capital support, assumption of liability, or guarantee of another company's indebtedness by the *newly approved insurer*.

For *newly approved insurers,* Sections 200-203 of these requirements apply in addition to all other *PMIERs* herein applicable to *approved insurers*. However, additional terms and conditions to address distinct risks or circumstances presented by the *newly approved insurer* may also be imposed. Such terms and conditions may include but not be limited to, requiring additional claims-paying resources of the *newly approved insurer*, improving the certainty of coverage, or enhancing operational and management controls.

Business Requirements

300 Scope of Business

An *approved insurer* must limit its business activities to the writing of *mortgage guaranty insurance* on loans secured by one- to four- unit residential properties.

Mortgage guaranty insurance issued by Approved Insurers

Non-insurance services

An *approved insurer* must not provide contract underwriting services, or any other services not directly required for providing *mortgage guaranty insurance*, that create a *material*, direct or contingent liability for the *approved insurer*. Additionally, an *approved insurer* may not incur or assume any *material* obligation from or on behalf of any subsidiary or *affiliate* including, without limitation, an obligation to provide additional insurance, or an insurance service or product or to provide a remedy for a liability incurred, in connection with providing contract underwriting or other non-insurance services by such subsidiary or *affiliate*.

Please see the FHFA overview of the *PMIERs* Section V. Request for Input, Scope of Business, for additional questions related to this section's provisions.

301 Organization

An *approved insurer* must be a corporation that continues to be in good standing, and duly organized pursuant to, and operating in compliance with, *applicable law*.

302 Policies, Procedures, Practices

An *approved insurer* must maintain written policies and procedures, developed on the basis of safe and sound industry practices and standards, along with an effective system of internal controls. At a minimum, an *approved insurer* must have policies and procedures that address the following:

1) The underwriting of insurance risk including the evaluation of borrower creditworthiness, property valuation, and *delegated underwriting*;
2) The timely and accurate payment of mortgage insurance claims;
3) The prevention and investigation of fraud;
4) The activities for monitoring and testing the quality of underwriting and claims administration (including loss mitigation); and
5) The management of risk including risk dispersion, credit portfolio management, and customer management.

303 Rebates, Commissions, Charges, and

When not specified otherwise in *applicable law*, an *approved insurer* must comply with the rebates, commissions, charges and compensating balance requirements found in the *Model Act*, Section 13 - Rebates, Commissions and Charges, Section 14 - Compensating Balances Prohibited, and Section 15(B) - Conflict of Interest. An *approved insurer* must notify the

Compensating Balances

GSE in writing *immediately* upon its determination of *material* noncompliance with these requirements.

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305
Separation of Responsibilities

An employee of an *approved insurer* whose responsibilities include sales for the *approved insurer* must not underwrite or approve insurance on mortgages. Excluded from this restriction are *officer*s accountable for: a) sales; and b) underwriting, credit risk management, counterparty risk management or other risk management functions.

306
Master Policies

Master policies must be submitted to the *GSE* for approval prior to use. Any proposed changes to an existing *master policy* covering any loan the *GSE* owns or guarantees, or that will cover a loan intended for sale to the *GSE*, must be approved in advance and in writing by the *GSE*. This includes any *master policy* change, whether by endorsement, customer bulletin, letter agreement, or any other form of agreement or commitment, with or without consideration that alters the terms of, or the rights of the parties under, the *master policy*.

The *GSE* must be able to rely on the *approved insurer* to pay all valid claims, when due, in accordance with the terms of the *master policy*. *Master policy* interpretation and claims administration should be reasonable, clear, fair and consistent. The *approved insurer* must actively pursue perfection of claims and expeditiously conduct claims investigations to ensure prompt settlement of claims.

307
Settlements and Changes to *GSE* Rights

An *approved insurer* shall not, without the *GSE's* prior written approval, enter into any agreements pertaining to the *GSE's* loans (including any loss sharing, indemnification, settlement or compromise agreement) that: (i) retroactively or prospectively waive, suspend, or otherwise alter the *approved insurer's* rights to investigate loans, rescind or deny coverage, or settle claims on one or more specified loans; (ii) expand or alter the *approved insurer's* right to rescind, as in cases where rescission is triggered by an event unrelated to loan eligibility, compliance with underwriting requirements, or breach of policy representations and warranties (e.g., rescission triggered by failure of *mortgage enterprise* to fund a *reinsurance* entity); or (iii) otherwise affect one or more loans owned or guaranteed by the *GSE*. Notwithstanding the foregoing, an *approved insurer* does not need to obtain the *GSE's* prior written approval for the settlement of a claim on a single loan in the ordinary course of business, provided that in connection with such settlement, the *approved insurer* does not receive any financial consideration independent of any claim adjustment that is otherwise supported by the terms of the *approved insurer's master policy*.

308
Diversification Policies

An *approved insurer* must have a documented risk diversification policy and employ risk management tools and techniques to avoid concentrated risk exposures in the *risk in force* the *approved insurer* insures. Segments of business for which concentrations should be monitored and managed include, but are not limited to, loan products and programs, geography, customers, and source of business (e.g., retail, wholesale, correspondent). The *approved insurer* must establish geographic concentration limits that, at a minimum, are in compliance with the *Model Act,* Section 5 - Geographic Concentration.

An *approved insurer* must monitor and report, at least quarterly, its risk concentrations to its *senior management* team. If the *approved insurer* determines that any concentration limits established by its risk diversification policy have been breached, the *approved insurer* must determine the cause of the breach and develop an action plan. To the extent the breach develops due to natural market dynamics (such as origination and/or prepayment phenomena), the *approved insurer* must review among other things, its geographic mix, product type, marketing, customer base and pricing and, as part of its action plan, implement steps to bring the breaches within its policy parameters. *Senior management* must review and approve the action plan prior to implementation. The action plan must be available and provided to the *GSE*.

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309 Claims Processing

An *approved insurer* must maintain a standard claims processing and servicing guide posted on its websites. Updates must be communicated to *insureds* with specific timelines for implementation. The *approved insurer* must provide to the *GSE* specific requirements and information related to its claim review and settlement processes including the following:

1) Documentation required to be provided in the claims submission process;
2) Claims status and timelines, including communication that the *approved insurer* will provide to the servicer during the claim review;
3) Corporate policies related to:
    a) Claim payments,
    b) Claim rescissions,
    c) Claim denials,
    d) Claim curtailments,
    e) Appeals of rescissions, claim denials, or cancellations of coverage.

An *approved insurer* must either: a) pay or deny a claim, or b) rescind coverage, within 180 days of the *claim perfection date*, and, in any event, the *approved insurer* also must rescind or deny a claim that is not perfected by 120 days from the claim filing date, except to the extent a *master policy* expressly requires the *approved insurer* to take any of the foregoing actions within lesser periods of time, in which event the timeline prescribed in the *master policy* shall be followed.

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310 Loss Mitigation

A*pproved insurer*s should provide a full delegation to the *GSE* for retention and liquidation loss mitigation alternatives. Loans insured by *approved insurer*s that do not provide full loss mitigation delegations may be subject to a pricing adjustment when acquired by the *GSE* to reflect higher potential loss management costs. If an *approved insurer* does provide for full delegation, it should make it clear in its servicing guidelines that servicers should follow the loss mitigation protocols and requirements of the *GSE*.

310 Loss Mitigation (continued)

To the extent an *approved insurer* does not provide the *GSE* with full delegation of loss mitigation, the a*pproved insurer* must conduct its loss mitigation and claims management operations according to the terms of the *master policy* and supporting documents. In addition, these *approved insurers* must provide service-level agreements that specify loss mitigation decision timelines. Those decision timelines must be no longer than the terms of the *master policy* and must be approved by the *GSE.*

311
Lender and Servicer Guidelines

A*pproved insurers* must maintain transparent and accessible lender and servicer guidelines on the *approved insurer's* website which reflect its standard business practices and include, but are not limited to, the following business functions:

1) Underwriting and loan eligibility, and
2) Default management.

Guidelines that should be accessible on the *approved insurer's* website include, but are not limited to, the following:

1) Loss mitigation standards for default management that clearly define servicer obligations. The guidelines should provide examples of actions, or inactions, which might lead to claim curtailments or denials.
2) Loss mitigation standards for borrower contact, collection practices, and required documentation.
3) Requirements and protocols for loss mitigation workouts delegated to servicers, that cover the following alternatives to foreclosure:
   a) Loan modifications,
   b) Pre-sales,
   c) Third-party sales,
   d) Deeds in lieu of foreclosure.
4) Claims administration

312
Policies of Insurance

An *approved insurer* must maintain business insurance for Fidelity Bond and Errors & Omissions at all times. The coverage amount for each policy must be no lower than $5 million dollars with a deductible amount not to exceed $150,000.

313
Insurance Data Reconciliation

An *approved insurer* must periodically complete a data reconciliation process with the *GSE,* in accordance with the *GSE's* requirements, including those set out in the *PMIERs*. Such process shall include providing to the *GSE* any data, reports and other information exchanged between an *approved insurer* and an *insured* relating to any loan(s) owned or securitized by the *GSE,* which also must be provided to the *GSE* upon its request.

314
Business Continuity Planning

An *approved insurer* must maintain business continuity plans and test such plans periodically to ensure that the *approved insurer's* business operations are sustainable in the event of disaster or other event requiring the activation of a business continuity plan.

315
Document Retention

An *approved insurer*, and any *exclusive affiliated reinsurer*, must retain documents and records that are necessary to demonstrate that it has met these *PMIERs* on an ongoing basis. Documents must be retained in accordance with the requirements of *applicable law* for document retention. In the absence of any such requirement, such documents must be retained for a period of at least three (3) years.

An *approved insurer*, and any *affiliate* of a ceding *approved insurer* with the sole purpose of providing *reinsurance* for the ceding *approved insurer*, is required to maintain records of claim denials, rescissions, policy cancellations and partial settlements in accordance with the requirement stated above. These records must also indicate the percentage and dollar amount of partial settlements, the amount of any claim denial, rescission or policy cancellation, as well as the reason for these actions.

The files related to each settled claim must contain information and documentation necessary to show that losses were computed pursuant to requirements of the *master policy*.

The *mortgage payment record* must be maintained by either the *approved insurer* or the *insured*. If the *insured* maintains the record, the *approved insurer* must establish servicing guidelines requiring the *insured* to employ adequate controls documenting the maintenance and quality of mortgage payment records. Records or documents may be created or retained in electronic form without storage of paper hard-copies, provided that they are retained and remain recoverable for the time required hereunder.

400 Overview

As a credit enhancement provider to the *GSE*, an *approved insurer* or its *delegated underwriter* must underwrite and understand the credit risk it insures (both borrower and property), and must have appropriate controls and procedures to ensure underwriting decisions, whether made by its staff or by its *delegated underwriter*, are sound and consistent with its guidelines. An *approved insurer's* determination of the acceptability of a loan's credit risk prior to insuring a loan, or in the case of *delegated underwriting*, as close in time to mortgage origination and insuring a loan as possible, is a foundational requirement of the *GSE*. An *approved insurer's* compliance with its underwriting practices and procedures will be audited by the *GSE*.

An *approved insurer*'s underwriting guidelines should be applied consistently to each borrower, regardless of race, color, religion, national origin, age, sex, marital status, familial status, or disability. Without limiting the generality of any *approved insurer* obligation under Section 101 of the *PMIERs*, the *approved insurer* must comply with all *applicable law* related to its underwriting practices.

401 Evaluation of Loan Eligibility and Borrower Credit-worthiness

An *approved insurer* or its *delegated underwriter* must, prior to insuring a loan, determine the creditworthiness of the borrower and the eligibility of the loan under its underwriting guidelines.

The *approved insurer* or its *delegated underwriter* must determine that the borrower has established an appropriate credit history, sufficient capacity and sufficient assets to establish a reasonable expectation that the borrower will make timely repayment of the loan being insured. The determination of creditworthiness should be made with specific consideration of the characteristics of the mortgage and repayment terms, and be based on a thorough evaluation of all pertinent credit information. An *approved insurer* may not insure any mortgage for which such determination has not been completed.

The *approved insurer* must maintain a list of underwriting documents that it may rely on to underwrite each loan. This list should be consistent with those listed in the *master policy* (or other document that references the *master policy*) under which the loan is insured. The list, along with a historical record of changes made to the list over time, must be maintained so that it is available to all parties that have an interest in the insurance or the loan.

402 Property Valuation

The *approved insurer* must establish a methodology for reviewing property valuations that will allow the *approved insurer* or its *delegated underwriter* to determine that the subject property is of sufficient market value to support the decision to insure. Such methodology should specifically address properties located in a soft or declining market.

An *approved insurer's* risk management controls must include a procedure for re-verifying property values in the event that an appraisal (or other forms of property valuations) is suspected of being fraudulent or unsubstantiated.

403 Delegated Underwriting

Approved insurers may utilize *delegated underwriting* provided that the *approved insurer* has established a system of controls and safeguards that will be audited by the *GSE*, including, but not limited to, a lender approval and monitoring process, and a quality control (QC) program to ensure compliance with the *approved insurer's* underwriting standards.

Delegated underwriting authority should be given only to lenders that have an established track record of originating high-quality loans. The *approved insurer's* QC program must be designed so that loans underwritten by *delegated underwriting* lenders receive a high degree of scrutiny and have a process to address lenders that do not comply with the *approved insurer's* quality standards.

In its determination of whether to issue a certificate of insurance, a *delegated underwriter* may use an *AUS* recommendation where an *approved insurer* has previously concluded that the particular *AUS's* recommendations are generally aligned with the *approved insurer's* independent credit risk guidelines as evidenced by that *approved insurer's* risk review process, and demonstrably supported by the analysis referenced in Section 404 below. This is the case even though the *delegated underwriter* may be able to rely on an *AUS* recommendation in its role as the lender making a determination on whether to extend credit.

An *approved insurer's* management of its *delegated underwriting* program and its significance in the *approved insurer's* business plan will be considered by the *GSE* when assessing the counterparty risk of the *approved insurer*. (Refer to Chapter 5, Quality Control, Sections 500-504 and Chapter 6, Lender Approval and Monitoring, Sections 600-602 for requirements and guidelines)

404 Use of Automated Underwriting Systems

If an *approved insurer* wants to use a third-party *AUS* recommendation (a) for its own purposes, or (b) as part of a *delegated underwriter's* underwriting of loans insured by the *approved insurer*, then, in either instance, the *approved insurer* must utilize a risk review process which includes an analysis (subject to audit by the *GSE*) which ensures that the recommendations of that *AUS* are aligned with the *approved insurer's* independent credit risk guidelines, including those germane to any subsequent *AUS* model version updates.

This analysis would provide the basis for the *approved insurer* or its *delegated underwriter* to use the AUS recommendation, rather than requiring the performance of full "manual" underwriting in either such instance.

Examples of the types of analysis that could be conducted include but are not limited to:

- A statistical validation of recommendations provided by the *AUS* in question to establish their consistency with the *approved insurer's* credit risk tolerances, internal risk modeling, and any overlay requirements, and
- An analysis of a population of randomly selected loans for which the *AUS* has generated recommendations that compares the consistency of the *AUS* recommendations to the credit determinations made by lenders through manually underwriting the loans.

404
Use of Automated Underwriting Systems (continued)

In no event shall an *approved insurer* permit the use, whether by its own underwriter or by a *delegated underwriter*, of an *AUS* recommendation in its determination as to whether to issue a certificate of insurance unless and until the *approved insurer* has first subjected that *AUS* to the *approved insurer's* risk review process, including the analysis illustrated above. If, at any time thereafter, the *approved insurer's* analysis suggests that *material* discrepancies exist between its own risk management policies or credit risk guidelines and the *AUS* recommendations, the *approved insurer* must take appropriate steps to address these discrepancies, which would include adding eligibility overlays or discontinuing the use of that *AUS's* recommendations.

405
Independent Validation for Early Rescission Relief

An *approved insurer* that opts to grant rescission relief earlier than 36 timely payments in accordance with its *master policy* or endorsements to its *master policy* for borrower/loan eligibility and underwriting defects or collateral eligibility and valuation defects must base its decision on independent validation by the *approved insurer*. In completing its independent validation, the *approved insurer* must review each loan and the review must be completed by a qualified underwriter who has had no association of any kind with (i) the originator, (ii) the underwriting or origination of the loan, or (iii) any individual involved at any point in the underwriting or origination of the loan.

500
Quality Control Program Requirements and Standards

An *approved insurer* must maintain a quality control (QC) program to assess the effectiveness of its underwriters and that of its *delegated underwriting* programs. The goal of an effective review process is to monitor adherence to the *approved insurer's* underwriting guidelines, ensure the accuracy of the mortgage data being relied upon, and prevent insuring fraudulent mortgages or mortgages with other deficiencies including faulty underwriting or insufficient documentation.

While there is no one specific QC program that can meet the needs of all *approved insurers*, certain common characteristics can be found in all effective QC programs. Examples of these industry best practices are captured in the *GSE's* Selling Guide and Quality Control Best Practices documents, which can be found on the *GSE's* website. However, at a minimum, an *approved insurer*'s QC program must incorporate the following elements:

1) Operate independently from the sales and underwriting functions.
2) Be effective in determining that the insured mortgages were properly underwritten and consistent with the *approved insurer's* underwriting guidelines.
3) Include standard reporting (as referenced in Section 504) that identifies opportunities for improvement, training, or other corrective actions that are communicated on a regular basis to the *approved insurer's senior management* and its lender customers.
4) Employ a loan selection methodology and frequency that meets the requirements of Section 503 hereof.
5) Monitor overall quality by source of business (e.g., retail, wholesale, broker, other).
6) Review declined applications for insurance to determine whether there is adequate support for those decisions.
7) Be in writing with documented operating procedures that incorporate the following:
    a) A clearly defined scope and purpose of the review, noting differences between underwriting versus claims reviews.
    b) The establishment and maintenance of a red-flag checklist for potential fraud.
    c) A well-defined process for establishing and managing corrective actions such as notification to the *approved insurer's* management, additional training for underwriting staff, or the removal of a lender's *delegated underwriting* authority.
    d) The utilization of third-party resources that can be applicable to the QC process, such as fraud detection tools.
    e) A threshold *QC defect* rate that triggers the need for corrective actions.
    f) A clear methodology to establish corrective actions should a *QC defect* rate rise above a threshold level requiring corrective action.
    g) Prompt identification of loan defects and subsequent actions taken to address and remediate patterns of loan production issues before loans qualify for rescission relief under the *master policy*.

500
Quality Control Program Requirements and Standards (continued)

h) Documented governance criteria and process for making and approving revisions to the *approved insurer's* QC program.

On an annual basis, the *approved insurer* must submit to the *GSE* a copy of its QC program with any changes noted from the prior year's version.

501
Pre-Closing Review Guidelines

The *approved insurer* should consider including as part of its QC program procedures for a pre-closing review of mortgages for which a commitment to insure has been issued prior to closing of the mortgage. This review may utilize automated tools or other methods including information from third-party tools that screen for fraud and misrepresentation.

502
Post-Closing Review Requirements

The QC program must include procedures for the post-closing review of selected mortgage loan files for which the *approved insurer* has issued mortgage insurance coverage to ensure that the loans closed with the terms and risk characteristics as originally accepted by the *approved insurer* or its *delegated underwriting* lender. In performing the loan file review, the *approved insurer* must evaluate the quality of the documentation and whether the underwriting decision conforms to, and is consistent with, the *approved insurer's* underwriting guidelines. The QC post-closing loan file review must, at a minimum, include the following:

a) A review of insured loans that were underwritten through both delegated and non-delegated channels, as well as non-delegated channel loans that were denied coverage

b) The evaluation and, if applicable, re-verification of the following information for the selected loans:

   i. income;
   ii. employment;
   iii. assets to meet reserve requirements;
   iv. appraisal report or property valuation data; and
   v. credit reports.

The post-closing QC loan file review results, including any findings, must be documented and reviewed with the *approved insurer's senior management* and, if appropriate, the originating lender**.**

503
Loan Selection Requirements

An *approved insurer's* QC program must employ both a random selection and a discretionary selection to effectively monitor the overall quality of its newly written insurance.

For random selections (i.e., non-discretionary samples), sampling techniques must ensure that every type of insurance, origination source, program, property type, etc. is eligible to be selected for review. The samples selected must include insured loans that are representative of an *approved insurer's* full scope of business written during the period being audited.

An *approved insurer* must use a random sampling methodology for determining the

503
Loan Selection Requirements (continued)

sample size that produces at least a 95% confidence interval with no more than a 2% margin of error when measured on an annual basis. The *approved insurer* must document how its sample size and loan file selections were determined for each selection set of loans and must provide to the *GSE*, upon its request, such documentation supporting the validity of the *approved insurer's* sampling methodology. The approved insurer's post-close QC review of loans sampled through its random selection process must be completed no later than 120 days following the latest insurance coverage effective date of the selected loans.

For its discretionary reviews, an *approved insurer* must review 100% of the loans it insures that become early payment defaults. In addition, the *approved insurer* should consider including in its selection for discretionary reviews loans that fall into the following categories:

1) Loans with layered risk characteristics;
2) Loans associated with a new loan type or new insurance product;
3) Loans subject to concerns about delinquency rates or patterns of defects identified in previous QC reviews;
4) Loans underwritten by a specific *delegated underwriter*;
5) Loans underwritten by staff members with limited underwriting experience;
6) Loans underwritten by lender(s) with a pattern of originating loans with high-risk characteristics; and
7) Loans underwritten or originated by lenders with a history of fraud or early prepayment.

A critical component of an *approved insurer's* QC program is the establishment and tracking of metrics and tolerances to quantify and compare the performance of its internal underwriting processes and those of its customers. To that end, *approved insurers* must calculate *QC defect* rates for all reviewed loans, loans underwritten on a non-delegated basis, and loans underwritten through an *approved insurer's delegated underwriting* program. An *approved insurer* must establish a maximum *QC defect* rate threshold for its random selection reviews. There is no corresponding threshold rate for defects identified through discretionary reviews. All such defects must be promptly addressed with the appropriate underwriting function to correct the underlying causes of the defect.

The *QC defect* rate threshold should be set by the *approved insurer*, subject to the *GSE's* review, taking into consideration the nature and circumstances of its overall business, its risk tolerances, the individual lenders with which it conducts business, and industry practices. The *approved insurer* should periodically reassess the threshold level with the goal of minimizing the threshold level over time.

If the *approved insurer's QC defect* rate threshold is exceeded, prompt action must be taken to ascertain any underlying cause(s) responsible for the breach (see Section 505 – Corrective Actions). Based on its assessment, the *approved insurer* must develop an action plan (or document why one was not necessary) to correct the underlying causes driving the breach. In addition, the *approved insurer* should establish triggers for how long its *QC defect* rate may remain elevated before pursuing corrective actions.

504
QC Reporting Requirements

QC findings are a basis for ongoing feedback to lenders and the *approved insurer's* underwriting staff. They also constitute a key component of the *approved insurer's* efforts to detect fraud and ineligible loans. The QC program should include regular reporting of findings to the *approved insurer's senior management*, including the management of the following business areas: risk management, underwriting, sales and operations. The QC reporting should be consistent in frequency with the QC review process. However, there must be *immediate* reporting to senior management in the event that a pattern of fraud or other similar activity, including but not limited to, misrepresentation, misstatements, omissions, or data inaccuracies is suspected as specified in the *master policy*.

The QC reporting must include, but is not limited to, the following:

- Findings, defects, *QC defect* rates and other issues resulting from the *approved insurer's* QC review process.
- Identification of the completed random and discretionary selections and the QC review results associated with each sample type.
- Timeliness of reviews, backlogs, or other process issues.
- Results of investigations of suspected or confirmed cases of intentional, *material* misstatement, misrepresentation, omission or data inaccuracy.
- Number and type of underwriting exceptions granted by the *approved insurer*.
- *QC defect* rate and findings reported separately for all significant lender customers and in aggregate for delegated and non-delegated programs.
- Trending of QC results to monitor the development of adverse trends.
- Performance of loans with previously identified *QC defects* where coverage was not rescinded or cancelled.
- Status tracking of all outstanding corrective action plans established to address either internal or customer findings.

The *approved insurer's senior management* and relevant business areas must review the results of the report findings within 30 days from the completion of the QC reviews, and must promptly implement any related action plans.

The *approved insurer* must provide to the *GSE* a summary reporting on its *QC defect* results on a quarterly basis. The *QC defect* rate, along with other performance metrics, will be monitored by the *GSE* through the *approved insurer* performance scorecard.

505
Corrective Actions

Once *QC defects* are identified that require corrective actions, the *approved insurer* must have a process in place to assess the *QC defect* to determine its root cause. Appropriate corrective actions must be pursued in a timely manner to remedy the identified *QC defect*. Corrective action plans must be developed and documented with specific timelines for completion and verification. For issues specific to a particular lender, the *approved insurer* must document its communication with the lender concerning that issue(s).

Examples of potential QC corrective actions include but are not limited to:

- Use of discretionary sampling to provide greater insight as to the extent of the

505 Corrective Actions (continued)

issue such as expanding the selection of loans with similar characteristics;

- Increased sampling rates or frequency of QC reviews;
- Enhanced staff or customer training;
- Implementation of process controls or process redesign;
- Strengthening of policies or procedures;
- System enhancements or other technology solutions;
- Engaging a third-party to conduct an independent review of the *approved insurer's* QC process including its sample selection processes;
- Restrictions on or the outright suspension/termination of a lender's *delegated underwriting* authority; and
- Restrictions on products or programs offered to a particular lender.

506 Internal Audit and *GSE* Onsite Review

The *approved insurer* must have an independent internal review process to check general compliance of the QC Program with the *approved insurer's* own guidelines and practices. The *GSE* may conduct on-site reviews to audit policies, processes, and practices of the *approved insurer*. The *approved insurer* must grant the *GSE* access to all underwriting and associated QC files that are part of or applicable to any loan owned or securitized by the *GSE*.

600
Lender Approval Guidelines

In addition to the requirements stated under Section 602, *Delegated Underwriting Approval and Monitoring Requirements*, an *approved insurer* must have and apply written standards and procedures for evaluating and approving the lenders from whom they receive requests to insure mortgage loans. These procedures must be applied to all lenders regardless of the *mortgage guaranty insurance* coverage type, delivery method or transaction type, and should include steps sufficient to allow the *approved insurer* to understand the quality of the lender's origination and servicing practices. The level of inquiry and information reviewed may vary depending on the scope and level of business with the lender. The *approved insurer's* review must include consideration of the following areas:

- The lender's underwriting and loan manufacturing process, including the experience of its mortgage underwriters, its reliance on third-party originators, and its use of *automated underwriting systems*.
- The lender's appraiser and broker/correspondent approval and monitoring processes.
- The lender's fraud prevention controls.
- The lender's historical loan performance.

601
Lender Monitoring Guidelines

An *approved insurer* must monitor the quality and performance of its lenders and their originations. Management should receive regular monitoring reports about each significant lender relationship. Effective reporting should aid the *approved insurer's* management in making informed decisions when remediation is required to address any lender deficiencies, or when it may be appropriate to reconsider a lender's approval status.

Following are some indicators of a lender's overall performance to be evaluated by the *approved insurer*:

- Volume of business and market share trends;
- Delinquency information, including a separate metric just for early payment defaults;
- Underwriting reject rates;
- Servicing problems or trends;
- Underwriting errors and approved variances
- QC results and defect rates;
- Tracking of any performance issues and their resolution
- Changes in key personnel, such as senior management, or those underwriting or servicing insured mortgages;
- Changes in loan payoff activity;
- Profitability analysis and peer comparison; and
- Diligence and effectiveness of loss mitigation efforts.

The type and extent of monitoring expected by the *GSE* to be performed by the *approved*

601 Lender Monitoring Guidelines (continued)

insurer directly relate to the amount of risk it is taking from a particular lender. This will vary with volume, type of loans insured, geographic location and servicing characteristics.

602 Delegated Underwriting Approval and Monitoring Requirements

The *GSE's* risk review and assessment of the *approved insurer's* lender approval and monitoring process will also consider the *approved insurer's* management of its *delegated underwriting* program and how that *delegated underwriting* program is incorporated into the *approved insurer's* overall business plan and corporate strategy.

Approval

If the lender is performing *delegated underwriting* for the *approved insurer*, the *approved insurer* must perform an adequate level of due diligence, incorporating an assessment of the areas mentioned in Section 403, *Delegated Underwriting*, sufficient to ascertain whether the lender is capable of meeting the *approved insurer's* quality expectations. In determining compliance with its underwriting standards, an *approved insurer* may not rely solely on a lender's representations and warranties.

Monitoring

The overall performance of an *approved insurer's delegated underwriting* loans must be tracked separately, by lender, from other insured loans.

700
Meeting Financial Requirements and State Compliance

An *approved insurer* must meet all financial requirements set forth in these *PMIERs* as a condition of initial and continued status as an *approved insurer*, unless otherwise directed by the *GSE* in writing. The *GSE's* initial and continued approval of a mortgage insurer will depend on multiple factors in addition to the financial requirements. An opinion (of the *approved insurer* or otherwise) that a basis for remedy of the noncompliance exists or that the period of noncompliance is expected to be brief does not change the determination that the noncompliance is *material.*

701
Sources and Diversification of Capital

The *approved insurer* should have financial flexibility and broad access to multiple sources of capital such that it has the ability to: (1) fulfill all *mortgage guaranty insurance* commitments, (2) obtain additional capital if required, and (3) remain adequately capitalized at all times. The *GSE's* evaluation of the *approved insurer's* financial flexibility will include, but is not limited to, assessment (with stress-testing and solvency analysis) of existing sources of capital (such as statutory assets, contingency and other reserves, premium flows and investment income), credit losses and operating expenses, analyses of cash flow coverage ratios, leverage metrics, and future capital-raising ability.

Approved insurers must establish and maintain a capital plan that, at a minimum, forecasts its future financial requirements as determined under these PMIERs based upon projections, including expected future business, in terms of premiums, risk in force, investment returns and reserves for delinquent loans under both expected and stress economic scenarios. The stress scenario should employ macroeconomic assumptions consistent with the Federal Reserve's Comprehensive Capital Analysis and Review "severely adverse scenario." The plan must also contain contingencies for raising additional capital in anticipation of any projected shortfall. The capital plan will be subject to review upon request by the *GSE*. Such contingency plans may include but are not limited to the following:

- Equity or debt capital raised from a broad investor base such as a public offering.
- *Capital support agreements* – capital support arrangements must be explicit such that the holding company or other third-party affirmatively and irrevocably agrees to contribute additional capital to the *approved insurer* as necessary. The following are the applicable requirements governing the use of *capital support agreements*:
    - A *capital support agreement* or any changes thereto must be approved in advance by the *GSE*, and the *GSE* will evaluate agreements for terms, timing, and ultimate strength of support.
    - A *capital support agreement* must be available at all times and enforceable by the *GSE,* the *approved insurer's domestic state insurance regulator*, or a receiver in the event of an insolvency of the *approved insurer*. Such agreements may not be terminated as it relates to the support of the *approved insurer's* existing obligations without the *GSE's* approval.
    - An *approved insurer* must also notify the *GSE,* its *domestic state insurance regulator*, and any *rating agency* from which the *approved insurer* receives a rating, in advance of any change in such agreement(s) that could have a *material* impact on the *approved insurer's* financial and/ or operational condition, strength of the support agreement, or the value of the *mortgage*

701 Sources and Diversification of Capital (continued)

guaranty insurance provided to the *GSE*, or *immediate*ly in the event of any *material* adverse change in the financial condition of the providers of such agreement(s).

- The terms of a *capital support agreement* must include the following:
  - Explicitly defined trigger events for activation of support that are designed to trigger prior to any shortfall of *available assets* relative to *minimum required assets*;
  - Sufficient duration of support ensuring the availability of capital when needed; and
  - Termination provisions that continue to provide value to the *approved insurer* through any stress event.

- *Affiliated* entity agreements such as:
  - Capital maintenance, and
  - Minimum net worth.
- Unconditional (standby) letters of credit with trigger events for activation of support.
- *Reinsurance* with non-*affiliated* or non-exclusive *affiliated* entities, subject to the *GSE's* approval and *reinsurance* eligibility guidelines.

702 Minimum Total Policyholders' Surplus

All *approved insurers* must meet and maintain a minimum *total policyholders' surplus* not less than that amount required to comply with *applicable laws*.

703 Third-Party Opinion and Risk Analytics

The *GSE* may require an *approved insurer* to obtain a third-party opinion or analysis, prepared at the *approved insurer's* request and expense, by a *third-party risk analytics firm* selected by the *GSE.*

704 Available and Minimum Required Assets

Financial adequacy is measured and represented by each *approved insurer* quarterly using a risk-based evaluation comparing *available assets* to *minimum required assets*. As discussed in Section 100, a member of the *approved insurer's senior management* team must certify that the *approved insurer* meets the requirements set forth below.

An *approved insurer* must maintain sufficient capital resources such that its *available assets* meet or exceed its *minimum required assets. Available assets* are defined to include the liquid investments that are readily available to pay claims, and include the most liquid investments of an *approved insurer*. Future *mortgage guaranty insurance* premium revenue is generally not considered in *available assets*, except to the limited extent described below for policies written prior to 2009.

Available assets for an *approved insurer* are calculated as the sum of its:

- Cash (such as those currently listed on an *approved insurer's* Statutory Statement

704
Available and Minimum Required Assets (continued)

of Assets, [line 5] in its *convention statement)*;

- Bonds (such as those currently listed on an *approved insurer's* Statutory Statement of Assets, [line 1] in its *convention statement*);
- Common and preferred shares (included at their market capitalization value discounted by 25%) only if:
  - The stock is publicly traded, and
  - The *approved insurer* has complete control and authority to sell the shares.
- Receivables from investments (such as those currently listed on an *approved insurer's* Statutory Statement of Assets, [line 14] in its *convention statement*); and
- Dividends of subsidiaries (with the GSE's prior written approval) to be paid to the *approved insurer* over a time period that is no greater than:
  - Two years, if unconditionally guaranteed by a strongly capitalized company, as determined by the GSE, with at least an A- rating from either S&P or Fitch, or A2 from Moody's; or
  - One year, if unconditionally guaranteed by a strongly capitalized company, as determined by the GSE, with at least an BBB- rating from either S&P or Fitch, or Baa2 from Moody's; or
  - Another period as approved by the *GSE*.
- The following liquid assets owned by an *exclusive affiliated reinsurer*, if the *exclusive affiliated reinsurer* is both (a) a U.S. domiciled corporation that is regulated as an insurance company; and (b) writes only *mortgage guaranty insurance* or *mortgage guaranty reinsurance*:
  - Cash, and
  - Bonds.
- The trust balance for any lender *captive reinsurer*, related to loans insured by the *approved insurer*.
- 210% of the *approved insurer's mortgage guaranty insurance* premium net of any amount ceded to a *non-affiliated reinsurer* or *non-exclusive affiliated reinsurer* earned in the prior 12 months on policies written before 2009 (including those subsequently refinanced through the *Home Affordable Refinance Program*).

Less,

- The *approved insurer's unearned premium reserves* (such as currently listed on line 9 of an *approved insurer's* Statutory Statement of Liabilities, Surplus and Other Funds in its *convention statement*).

Minimum Required Assets

Minimum required assets are the greater of $400 million or the *total risk-based required asset amount* as determined in Exhibit A.

705
Ratings Agency Rating

All *approved insurers*, except *newly approved insurers*, must maintain a rating with at least one *rating agency*.

706
Limitations Triggered by an *Available Assets* Shortfall

To preserve capital, the following limitations are triggered when *available assets* fall below *minimum required assets*. Without the *GSE's* prior written approval, an *approved insurer* with an asset shortfall shall not:

- Enter into any new or alter any existing *capital support agreement*, *assumption of liabilities*, or guaranty agreement (except for contractual agree*ments in the normal cours*e of business);
- Enter into any new arrangements or alter any existing arrangements under tax-sharing and intercompany expense-sharing agreements;
- Invest in *affiliates*, subsidiaries or non-*affiliated* entities; or
- Enter into any new risk novation or commutation transaction or any new *reinsurance* arrangement or structure.

The *PMIERs* should ensure that the *GSE* has the appropriate set of remediation controls aimed at preserving the capital held by an *approved insurer* that experiences a shortfall in *available assets*.

Please see the Overview of Draft Revised *PMIERs*, Section V. "Request for Input, Financial Requirements, Limitations Triggered by an *Available Asset* Shortfall" for additional questions related to how the *PMIERs* should address this issue.

707
Investments in and Capital Support for Other Entities

An *approved insurer* may not have, incur or assume an obligation or indebtedness, contingent or otherwise, including, without limitation, an obligation to provide additional insurance, or related service or product, or to provide remedy to an obligation of a subsidiary.

Moreover, an *approved insurer* must obtain the *GSE's* prior written approval to:

- Permit a *material* change in, or acquisition of, control or beneficial ownership (deemed to occur if any person or entity or group of persons or entities acquires or seeks to acquire 10% or more of the voting securities or securities convertible into voting securities);
- Make changes to the corporate or legal structure involving the *approved insurer*;
- Transfer or otherwise shift assets, risk, or liabilities to any subdivision, segment, or segregated or separate account of the *approved insurer* or any *affiliate* or subsidiary;
- Assume any *material* risk other than directly providing *mortgage guaranty insurance*; or
- Provide capital, capital support, or financial guaranty to any *affiliate* or subsidiary that is either an *approved insurer* or an *exclusive affiliated reinsurer*.

708
Reinsurance* and *Risk Sharing Transactions

Approved insurers must obtain prior written approval of the *GSE* to enter into any new or alter any existing *reinsurance* or *risk sharing transaction* other than those permitted that relate to; a) *exclusive affiliated reinsurers* described below, or b) *risk sharing transactions* with a *GSE.* For any *risk sharing transaction* executed with a *GSE, approved insurers* must provide notification concurrent with the public disclosure of such transaction. The

708
***Reinsurance* and *Risk Sharing Transactions* (continued)**

approved insurer must obtain statutory and regulatory accounting credit for the risk transfer and provide upon the *GSE's* request documentation supporting the conclusion that the transfer of risk is appropriate from both an accounting and regulatory perspective. The *GSE* may apply an alternative reduction in *risk-in-force* in determining *minimum required assets* than that permitted by the applicable regulator or accounting rule. The financial impact on the *approved insurer* after giving effect of *reinsurance* will be evaluated by the *GSE*.

Any *risk sharing transactions* whether with a *mortgage enterprise* or an *affiliate* thereof that constitute or involve un-captive captives or performance notes, as defined by the Insurance Department of the *State* of New York[1], are expressly prohibited.

Non-affiliated* or *Non-exclusive Affiliated Reinsurance

Approved insurers, with the *GSE's* written approval, may enter into reinsurance arrangements with *non-affiliated* or *non-exclusive affiliated reinsurers*, as defined below. The *GSE* may limit the percentage of gross premium and risk that may be ceded to the *non-affiliated* or *non-exclusive affiliated reinsurer*.

The *GSE* will not approve any *reinsurance* or *risk sharing transaction* set up under the following conditions:

- With the purpose or effect of circumventing the terms and conditions of these *PMIERs*; or
- With a *mortgage enterprise* or an *affiliate* of a *mortgage enterprise.*

If approved, a final version of the *reinsurance* agreement, and all attachments and exhibits, must be provided to the *GSE* within 30 days after the closing date.

An *approved insurer* may be required to obtain an opinion from a *third-party risk analytics firm* that: (1) real risk transfer occurs for each agreement, and (2) ceded premium is commensurate with ceded risk. *Reinsurance* must provide sufficient capital relief for the *approved insurer* and provide economic benefit, as determined by the *GSE*.

Minimum counterparty financial requirements for a non-*affiliated* or *non-exclusive affiliated reinsurer* or risk-sharing partner include the following:

- A strongly capitalized entity, as determined by the *GSE*, that provides *reinsurance* to the ceding *approved insurer*; or
- A *reinsurer* that maintains an Insurer Financial Strength Rating of at least 'A-' from either S&P or Fitch, or 'A3' from Moody's, or 'A' from A.M. Best.

Exclusive Affiliated Reinsurance

Quota share reinsurance arrangements with *exclusive affiliated reinsurers* are permitted without the *GSE's* approval as long as gross risk or ceded premium does not exceed 25% of the risk or premium, respectively, unless the *reinsurance* is related to compliance with regulatory loan level coverage limits. *Excess of loss reinsurance* arrangements with *exclusive affiliated reinsurers* are not permitted.

An *exclusive affiliated reinsurer* must be a strongly capitalized *affiliate*, as determined by the *GSE*, of a ceding *approved insurer* that provides *reinsurance* to the ceding *approved*

[1] New York State. State of New York Insurance Department. Mortgage Guaranty Insurance Transactions and Lenders. Circular Letter No. 2, February 1, 1999. New York, New York

insurer.

708
***Reinsurance* and *Risk Sharing Transactions* (continued)**

The financial impact on the *approved insurer* after giving effect of *reinsurance* will be evaluated by the *GSE*.

Other Risk Sharing Transactions

An *approved insurer* must obtain written approval from the *GSE* prior to entering into any other *risk sharing transactions*. *Risk sharing transactions* that are eligible for consideration are those that:

- Have not been prohibited by a *state* that asserts extraterritoriality for insurance regulation (whether or not that state's extraterritorial authority would apply to the *risk sharing transaction* or the *approved insurer* in the absence of this requirement), and
- Do not violate (i) the *applicable law* established by any state asserting extraterritoriality for such *risk sharing transaction* (whether or not that state's extraterritorial authority would apply to the *risk sharing transaction* or the *approved insurer* in the absence of this requirement), and (ii) all other *applicable laws*.

709
***Lender Captive Reinsurance* Contracts**

Approved insurers may not enter into any new *lender captive reinsurance* contracts nor cede any additional risk to existing *lender captive reinsurance* arrangements.

The *approved insurer* must obtain prior written approval from the *GSE* to:

- Allow the payment of dividends or distribute funds to the parent or *affiliates* in amounts greater than permitted by the *lender captive reinsurance* contract;
- Effect a *material* or economically adverse alteration or amendment to a *lender captive reinsurance* contract; or
- Terminate any *lender captive reinsurance* contract unless the *approved insurer* receives at least 80 percent of the value of assets in the captive trust.

The ceding *approved insurer* must monitor the investment of the captive trust assets, and when investments are determined to be noncompliant according to *applicable law* or transaction documents, direct that the trust assets be brought into compliance.

800
Statement of Purpose

An *approved insurer* must keep the *GSE* advised of all aspects of its ownership and operations that might have a bearing on the financial and/or operational condition of the *approved insurer* or the value of the *GSE's* credit enhancement.

801
Notices

An *approved insurer*, and any *exclusive affiliated reinsurer*, must notify the *GSE immediately* in writing of any of the events listed below. The notice must describe the event with reasonable specificity, without reference to any other documents.

1) Upon the occurrence of any event, action or circumstance that would require a notice on SEC Form 8K if the *approved insurer* is subject to such requirement.
2) Upon receipt of notice of *material* noncompliance with any *applicable law*.
3) Upon receipt of notice of investigation of, or *material* action from, any federal, state, local government agency, or any regulatory or enforcement body.
4) Upon discovery of any *material* failure to meet these *PMIERs*, the specific terms and conditions of approval, or any other requirement imposed by the *GSE*.
5) Upon receipt of notice that the *approved insurer* has or will be placed into *run-off*, conservatorship, receivership, liquidation or state of supervisory control by its *domestic state insurance regulator*. The *approved insurer* must provide the *GSE* the actual content or *material* substance of any corrective order or similar regulatory directive issued in connection with such action.
6) Upon any *material* change in its ownership, control or organization. Such change may include, but is not limited to, a merger, consolidation, sale or transfer of stock, name change or change in its *senior management* or the membership of its board of directors.
7) Upon any *material* adverse change in the financial condition or performance of an *approved insurer* or actions or events that threaten *material* adverse change.
8) Upon being placed on probation or having its activities restricted in any manner by any agency of the federal, state or local government or regulatory authority.
9) Upon becoming subject to any judgment, order, finding, or regulatory action that would adversely affect the *approved insurer*'s ability to meet or otherwise fulfill any requirement of the terms and conditions of these *PMIERs* or the conditions of the *GSE's* approval of the *approved insurer*, or that could adversely impact its claims paying ability or the ordinary conduct of its business.
10) Upon obtaining final internal approval of any change to any existing *capital support agreement(s)* and/or execution of a new *capital support agreement* for the benefit of, or provided by, the *approved insurer* that could have a *material* adverse impact on the value of the *mortgage guaranty insurance* provided to the *GSE* or the financial and/or operational condition of the *approved insurer*.
11) Upon (i) any filing for federal bankruptcy by, or (ii) issuance by a state or federal court, or other applicable entity with appropriate authority of, an order of liquidation, rehabilitation, conservatorship, or receivership against any entity holding a controlling interest in the *approved insurer*.
12) Upon any *material* adverse change in the financial condition, rating, or performance of any provider of *reinsurance* (including *lender captive reinsurers*) for the benefit of the *approved insurer*, or actions or events that threaten such

801 Notices (continued)

material adverse change.

13) Upon placement of its insurer Financial Strength Rating on ratings watch, or the upgrade, confirmation, affirmation, downgrade, withdrawal, or discontinuance of such rating by any *rating agency*.
14) Upon discovery of any existing activity that may have the potential for creating *material* non-insurance related contingent liabilities (e.g., contract underwriting).
15) Upon the resignation or termination of its certified public accountants.
16) Upon a *material* default on a policy or other contractual obligation to any insured or third-party beneficiary of such insurance (e.g., the *GSE*), which is not cured in accordance with the contract terms or, if such contract terms do not specify a time for such cure, within a reasonable time.
17) Upon a determination that any *risk sharing transaction*, or *mortgage guaranty insurance* of loans not acquired by the *GSE*, is likely to have a *material* adverse impact on the value of the insurance provided to the *GSE* or the financial and/or operational condition of the *approved insurer*.
18) Upon a determination that any change, event, or circumstance, whether by contract, law, or otherwise, has or will have a *material* adverse impact on the value of the *mortgage guaranty insurance* provided to the *GSE* or the financial and/or operational condition of the *approved insurer*.
19) With as much advance notice as possible, but no later than concurrently with the announcement of changes to an *approved insurer's* published eligibility or underwriting guidelines or published rates for any standard borrower or lender-paid *mortgage guaranty insurance* or servicing guidelines.
20) Upon discovery of any conflict between *applicable laws* and any provision of these *PMIERs* or the terms and conditions of approval.
21) Upon discovery of any loss event covered under either a fidelity bond or errors and omissions insurance policy that exceeds $100,000 whether or not the approved insurer elects to file a claim under the applicable policy.
22) Upon receipt of a notice from the approved insurer's fidelity bond or errors and omissions insurance carrier regarding the intended cancellation, reduction, nonrenewal, or restrictive modification of such policies, the approved insurer must provide a copy of the notice to the GSE with an explanation of the actions being taken or intending to be taken to ensure it continues to satisfy the insurance requirements described in Section 312 of these PMIERs.

802 Required Reporting

Operational Performance Scorecard

Each quarter, an *approved insurer's* operational performance will be evaluated by the *GSE* using the *Operational Performance Scorecard*, which will contain specific metrics chosen to capture operating performance results. The *GSE* will establish target expectations for those metrics to evaluate performance on an absolute and relative basis.

An *approved insurer* must implement operational procedures that provide for accurate and timely reporting of results and the data necessary to derive the scorecard metrics. To facilitate this reporting and analysis, the *approved insurer* must undertake the following:

- Within 30 calendar days after the end of each quarter, submit a data file containing

802 Required Reporting (continued)

the requested scorecard metrics as described in the *Operational Performance Scorecard* template (Exhibit B).

- Within 30 calendar days after the end of each month, file a report (Exhibit C) summarizing activity including, but not limited to, data on claims, rescissions, denial, appeals and rebuttals.

If the *Operational Performance Scorecard* results do not meet the thresholds established by the *GSE*, the *approved insurer* will be subject to remediation actions. The results of an *approved insurer's Operational Performance Scorecard* will fall into one of four categories shown below, with the degree of remediation correlating to the level of risk:

- Acceptable Performance.
- Low Risk: Discuss issue with *approved insurer* and define targeted steps and timelines for meeting the applicable requirement.
- Medium Risk: Implement restrictions on business practices or charge financial penalties for failing to satisfy requirements or agreed-upon remediation actions.
- High Risk: Take actions to eliminate unacceptable levels of the *GSE's* exposure to the *approved insurer*.

More specifically, the remediation options that the *GSE* may consider include, but are not limited to, those options listed in Section 901.

Additional Quarterly Reports and Processes

An *approved insurer*, and any *exclusive affiliated reinsurer*, either individually or on a consolidated basis, must file [Form 443 (*Freddie Mac*)] [Form 853 (*Fannie Mae*)], with the *GSE* within 45 calendar days after the end of each quarter, except for the last quarter of each calendar year. The report for the last quarter of a calendar year must be filed with the *GSE* within 60 calendar days after the end of that calendar year.

When submitting the Form [443][853], the *approved insurer* must also notify the *GSE* in the event that funds have been removed from the *contingency reserve* during the previous quarter, if such funds were removed prior to the 10-year hold period specified in the *Model Act*, Section 16(c) - Reserves.

Within 45 calendar days after the end of each quarter (except for the last quarter of each calendar year, during which the report must be filed with the *GSE* within 60 calendar days after the end of that calendar year), an *approved insurer* must provide the following:

1) Reporting:
    a) Quarterly statutory financial statements of the insurer and its subsidiaries.
    b) The quarterly portfolio and financial supplement set of spreadsheet tabs as attached in Exhibit D.
2) A consolidated report for all *lender captive reinsurance* agreements and individual reports for each of the *approved insurer's* top 10 *lender captive reinsurers* (measured by aggregate dollar amount of potential exposure reinsured with such *lender captive reinsurer*) and any *lender captive reinsurer* for *lender captive reinsurance* arrangements above 25% ceded risk and/or premium.
3) File a report on a consolidated basis for all *reinsurance* agreements with *reinsurers* that are not *lender captive reinsurers* and individually for each of the top 10

802 Required Reporting (continued)

reinsurers that are not *lender captive reinsurers*. Data will be included in financial supplement as attached in Exhibit D.

4) Additional data files required by the *GSE* necessary to calculate *risk-based required assets* as defined in Exhibit A.

Annual Reports

Each *approved insurer*, and any *exclusive affiliated reinsurer*, is required to submit the following reports to the *GSE* by April 15 each year (unless such reports are available on or through links on the web site of the approved insurer or its parent company within such time period):

1) Annual consolidated GAAP financial statements for non-public entities.
2) An annual *convention statement* as filed with state insurance regulators and all correspondence relating thereto.
3) An annual certificate which states that the *approved insurer* has fully met these *PMIERs.* The form of such certificate shall be prescribed by the *GSE* and must be signed by a member of the *senior management* team of the *approved insurer.*
4) An audit report prepared by an independent certified public accountant or in lieu thereof a copy of Form 10K for the *approved insurer* or its parent company as filed with the Securities and Exchange Commission, attaching a schedule which will reconcile the audited consolidated financial statements included in the Form 10K with the statutory financial statements of the *approved insurer*, if such reconciling schedule exists (reconciling schedule must be provided as soon as available if not typically available by April 15).

   The *approved insurer's* statement of actuarial opinion on reserve adequacy.

803 Supplemental Information

At any time, the *GSE* reserves the right to request any additional reports and documents that may contain information relating to the *approved insurer's* having met (or its failure to meet) these *PMIERs* or the *approved insurer's* practices, or these *PMIERs* or practices of any *exclusive affiliated reinsurer*.

804 Periodic Audit Reviews

At the *GSE's* discretion, the *GSE* may conduct on-site and remote reviews and audits of the business policies, procedures and practices of the *approved insurer* and any *exclusive affiliated reinsurer.* The purpose of the review is to evaluate the *approved insurer's* ongoing ability to meet these *PMIERs.* The *GSE* must be provided with access to documents and staff as necessary to complete the review.

Reviews may be conducted on-site or remotely, and may include any aspect of the *approved insurer's* business operations, including but not limited to: organization and business strategy, financial statements, accounting and tax practices, investment portfolio management, insured portfolio characteristics and performance, *reinsurance,* lender/servicer management, underwriting guidelines, pricing, application and commitment/certificate issuance process, loss mitigation, claims processing and rescissions, and information technology systems.

Failure to Meet Requirements

900
General Policy

The *GSE* may take action(s) if it believes an *approved insurer* has violated, is violating or is about to violate any of these *PMIERs,* including any additional conditions of eligibility or continued eligibility set by the *GSE* applicable to the *approved insurer*, or if the *GSE* has significant concerns regarding the *approved insurer*'s i) financial and/or operational condition, ii) ability to honor obligations to the *GSE* or iii) ability to write new business, or iv) ability to maintain satisfactory operational performance. Such actions may include but are not limited to:

1) Communication of a warning to the *approved insurer* that expresses the *GSE's* concern and suggests possible remediation actions in accordance with Section 901 – Remediation Options and Section 902 – Notice of Intent to Suspend or Terminate.
2) Issuance of a written warning to an *approved insurer* that it has violated, is violating, or is about to violate any of the provisions of these *PMIERs,* and that unless corrective action is taken within a specified time period, *suspension* or *termination* may result. This warning may be given by the *GSE* as part of an audit report or as a result of any other review or investigation of the *approved insurer* by the *GSE*.
3) Imposition of additional terms and conditions of eligibility including the remediation options in Section 901 – Remediation Options.

901
Remediation Options

If an *approved insurer* is deemed to not meet any of these *PMIERs*, it will be subject to remediation actions. Additionally, the *GSE* may require the *approved insurer* to provide an action plan acceptable to the GSE to meet the requirements with specific completion timeframes. If an action plan is required, the *GSE* will provide guidance related to any information, analysis and/or other documentation needed to support the specific actions the *approved insurer* will include in the plan.

A number of remediation actions may be taken by the *GSE* or be required of the *approved insurer* including but not be limited to:

1) Engage in more frequent dialogue or visits.
2) Require the *approved insurer* to provide additional information and data.
3) Impose new business volume or risk limits for loans insured by the *approved insurer* and delivered to the GSE.
4) Limit the risk characteristics of loans to be acquired by the GSE and insured by the *approved insurer*.
5) Increase frequency of QC reviews.
6) Restrict *delegated underwriting.*
7) Increase the *minimum required assets.*
8) Further limit the types of assets that may be considered *Available Assets.*
9) Require the *approved insurer* to raise or infuse additional capital.
10) Obtain parental or other capital support.
11) Commute or restructure existing *risk-in-force.*
12) Limit variances to the *approved insurers* underwriting guidelines.

901 Remediation Options (continued)

13) Limit or deny acceptability of an *affiliate's* product or services in connection with the *GSE's* business.
14) Restrict or deny participation in new products, initiatives or programs offered by the *GSE*.
15) Notify *approved insurer's* regulator and *rating agencies* of remedial actions.
16) Differentially price insured loans acquired by the *GSE*, based upon the *approved insurer*.
17) Decline insurance renewal or exercise other policy cancellation provisions of loans owned or guaranteed by the GSE, or so instruct servicers of the GSE's loans, and then transfer insured business to another *approved insurer*.
18) Impose compensatory fees for losses suffered on the GSE's loans as a result of the *approved insurer's* failure to meet the PMIERs.
19) Issue a demand for any other specific corrective action.
20) Suspend approval status.
21) Terminate approval status.

902 Notice of Intent to Suspend or Terminate

The *GSE* will provide lenders appropriate notices consistent with the foregoing actions. The *GSE* may arrange for transfer of the existing *mortgage guaranty insurance RIF* to another *approved insurer* or, if such coverage is not available from one or more *approved insurer*s, make alternative arrangements consistent with the terms of the *GSE's* charter.

If an *approved insurer* wishes to voluntarily discontinue meeting the terms and conditions of approval, the *approved insurer* must inform the *GSE* 30 calendar days in advance, in writing. Upon receipt of written notification, the *GSE* will *suspend* or *terminate* the *approved insurer*.

The *GSE* will provide the *approved insurer* with not less than 15 calendar days prior written notice of intent to *terminate* or *suspend* unless the *GSE* determines, at its sole discretion, that a shorter or no notice period is necessary or advisable to protect its interests.

Certain violations of these *PMIERs* are viewed with particular seriousness by the *GSE*, including but not limited to, violations pertaining to an *approved insurer's* safety and soundness, financial and/or operational condition or its claims paying ability. In such cases, the *GSE* may act without prior written notice to disqualify or suspend the *approved insurer*. If prior written notice is not provided, *suspension* or *termination* will become effective upon oral notice from the *GSE* to the *approved insurer*. Written confirmation of that oral notice will follow. The *GSE's* decision to *terminate* or *suspend* an *approved insurer* will be made pursuant to its applicable process and appropriate approvals.

903 Consequences of Suspension	During a period of *suspension*, the *GSE* will not purchase mortgages insured by a suspended mortgage insurer that had been formerly approved. However, the *GSE* may permit renewals of existing *mortgage guaranty insurance* coverage issued by the suspended mortgage insurer for mortgages serviced for the *GSE* and provide lenders appropriate notices consistent with the foregoing actions.
904 Consequences of Termination	The *GSE* will not purchase mortgages insured by a terminated *approved insurer*, and may not permit renewals of existing *mortgage guaranty insurance* for mortgages serviced for the *GSE*.

Total Risk-Based Required Asset Amount

The total *risk-based required asset amount* for an *approved insurer* is a function of its direct risk-in-force (*direct RIF*), and the risk profile of the loans it has insured under all its primary and pool policies, including the *master policies*. The *risk-based required asset amount* is computed as described in this exhibit using tables of factors with several risk dimensions.

The *risk-based required asset amount* for primary *mortgage guaranty insurance* covering performing loans is also subject to a floor equal to 5.6% of *RIF* to ensure that such exposure is supported by a minimum amount of assets, irrespective of the risk profile of the covered loans. The *risk-based required asset amount* for pool insurance considers both the grid factors and the *net remaining stop loss* for the pool policy.

The *direct RIF* used to calculate the *risk-based required asset amount* may be adjusted to reflect risk ceded to other parties.

Adjustments to RIF for Risk Ceded to Other Parties

Starting with the amount of the *approved insurer's direct RIF*, adjustments will be made, as applicable, to deduct certain risk ceded to other parties to obtain *adjusted RIF,* which is used to compute the *risk-based required asset amount* described in the sections that follow.

The *approved insurer* must seek guidance from the *GSE* to determine the amount of ceded risk that may be deducted in calculating *adjusted RIF*.

In general, the following are the adjustments to *direct RIF* that will be considered by the GSE:

- Risk transferred to *non-exclusive affiliated reinsurers* or *non-affiliated reinsurers* on a *quota share* basis may be deducted, based upon the projected amount of *direct RIF* ceded under a stress economic scenario.
- In making adjustments for risk ceded to *non-exclusive affiliated reinsurers* or *non-affiliated reinsurers* on an *excess of loss* or other basis not consistent with a *quota share* arrangement, the *GSE* will deduct only the amount of *RIF* ceded below a loss threshold equal to the *risk-based required asset* amount that would otherwise apply to the *direct RIF*. That is, for the ceded *RIF* to be deducted, the attachment point, expressed in dollars, for an *excess of loss* arrangement must be below what the *risk-based required asset* amount would be if applied to the *direct RIF,* i.e., if the reinsurance arrangement were not in place. Additionally, no *RIF* ceded above that same *risk-based required asset* amount will be deducted.
- All *risk sharing transactions* must meet the requirements described in Section 708.

Note that risk ceded to *exclusive affiliated reinsurers* or *captive reinsurers* will not be deducted in calculating *adjusted RIF*.

***Risk-Based Required Asset* Factors**

The *risk-based required asset amount* for loans insured with primary *mortgage guaranty insurance* or pool mortgage insurance are determined by using a set of *risk-based required asset* factors that are applied to the *adjusted RIF* as determined above. These *risk-based required asset* factors are segmented according to the following risk characteristics:

- The original LTV ratio of the loan;
- The original credit score of the borrower(s);
- The vintage classification, based upon the note date of the insured loan:
    - Pre-2005,
    - 2005-2008, and

    - Post 2008
- Whether or not the loan has been refinanced through *HARP*; and
- The loan payment and/or policy claim status.

Tables 1 – 5 below are the *risk-based required asset* factor grids. These may be updated periodically to reflect changes in the risk characteristics of insured loans and changes in the macroeconomic environment.

Table 1:
Loan Vintage: Pre-2005
Loan Payment Status: Performing (Current or not more than one missed monthly payment)
Loan Purpose: non *HARP*

	Original Credit Score Classification				
Original LTV Classification	**<= 620**	**621 - 680**	**681 - 740**	**741 - 780**	**781 - 850**
LTV <= 85	1.3%	1.1%	1.0%	1.0%	1.0%
85 < LTV <= 90	4.6%	3.3%	1.8%	1.0%	1.0%
90 < LTV <= 95	6.3%	4.2%	2.3%	1.2%	1.0%
LTV > 95	11.2%	7.6%	4.2%	2.2%	1.2%

Table 2:
Loan Vintage: 2005 - 2008
Loan Payment Status: Performing (Current or not more than one missed monthly payment)
Loan Purpose: non *HARP*

	Original Credit Score Classification				
Original LTV Classification	**<= 620**	**621 - 680**	**681 - 740**	**741 - 780**	**781 - 850**
LTV <= 85	15.9%	11.6%	7.7%	4.3%	2.4%
85 < LTV <= 90	25.6%	19.2%	12.9%	7.6%	4.7%
90 < LTV <= 95	30.7%	23.4%	16.6%	10.1%	6.2%
LTV > 95	39.5%	31.7%	21.8%	13.9%	8.4%

Exhibit A

Table 3:
Loan Vintage: Post 2008
Loan Payment Status: Performing (Current or not more than one missed monthly payment)
Loan Purpose: non *HARP*

Original LTV Classification	**Original Credit Score Classification** **<= 620**	**621 - 680**	**681 - 740**	**741 - 780**	**781 - 850**
LTV <= 85	10.3%	7.6%	4.5%	2.5%	1.4%
85 < LTV <= 90	17.6%	12.7%	7.5%	4.3%	2.5%
90 < LTV <= 95	23.8%	16.9%	10.2%	6.0%	3.6%
95 < LTV <= 100	27.9%	21.4%	13.9%	7.8%	4.7%
100 < LTV <= 105	31.1%	23.2%	16.5%	9.8%	5.7%
LTV > 105	38.7%	28.2%	20.6%	13.0%	8.2%

Table 3A:
Loan Vintage: Post 2008
Loan Payment Status: Performing (Current or not more than one missed monthly payment)
Loan Purpose: all
Loan Type: not meeting any of the following criteria at the time of origination:

- **Eligible for sale to Fannie Mae, Freddie Mac, or any of the Federal Home Loan Banks;**
- **Meets the requirements of either GSE Selling Guide, except those related to loan amount**
- **Originated under a state housing finance agency program, or**
- **Meets the requirements of a qualified mortgage under 12 C.F.R. § 1026.43(e) or (f)**

Risk Feature *	**Multiplier**
Not Underwritten with Full Documentation	3.00
Not Owner-occupied at Origination	3.00
Underwritten with a Monthly Debt-to-Income Ratio > 43%**	2.00
Mortgage Payment is not Fully Amortizing	1.50

* If the *approved insurer* does not have, or does not provide to the GSE, data to determine the presence of one of the listed risk features, then for purposes of this section, the risk will be assumed to exist, and the associated multiplier will apply.

** Monthly Debt-to-Income Ratio determined in accordance with the standards specified in 12 C.F.R. § 1026.43, including appendix Q.

Table 4:
Loan Vintage: as permitted by *HARP* guidelines
Loan Payment Status: Performing (Current or not more than one missed monthly payment)
Loan Purpose: *HARP*

	HARP* Credit Score Classification				
HARP* LTV Classification	**<= 620**	**621 - 680**	**681 - 740**	**741 - 780**	**781 - 850**
LTV <= 85	4.3%	3.0%	1.2%	1.0%	1.0%
85 < LTV <= 90	7.3%	4.3%	1.6%	1.0%	1.0%
90 < LTV <= 95	9.9%	5.5%	2.3%	1.0%	1.0%
95 < LTV <= 100	12.9%	9.0%	4.3%	1.8%	1.0%
100 < LTV <= 105	14.4%	9.7%	5.4%	2.5%	1.3%
LTV > 105	22.3%	15.0%	9.7%	5.5%	3.3%

*As of the HARP refinance date.

Table 5: Non-performing Insured Loans

2 – 3 Missed monthly payments, no claim filed	55.0%
4 – 5 Missed monthly payments, no claim filed	69.0%
6 – 11 Missed monthly payments, no claim filed	78.0%
>= 12 Missed monthly payments, no claim filed	85.0%
Pending Claims	106.0%

I. Calculating the *Risk-Based Required Asset Amount* for *Performing Primary Mortgage Guaranty Insurance:*

For purposes of this calculation, the term "performing" is defined as those loans that are current or not more than one missed monthly payment. The *risk-based required asset amount* for *performing primary mortgage guaranty insurance* is the greater of a) the sum of the products of the *risk-based required asset* factors in the tables above multiplied by the *performing primary adjusted RIF* for each cell, or b) the product of 5.6% multiplied by the aggregate *performing primary adjusted RIF*.

Calculation Steps:

i. For each insured loan, establish the *risk-based required asset* factor:

1. Find the applicable factor found in Tables 1, 2, 3, or 4 above, based upon the Original Credit Score, Original LTV, Vintage, and Loan Purpose of the insured loan. For loans refinanced through the HARP program, use the LTV ratio and credit scores at the time of the refinance.

2. For loans that a) meet the criteria specified in the header for Table 3A above, and b) have one or more of the risk features specified in Table 3A: multiply the factor found in Step (I.i.1) by each of the applicable multipliers specified in Table 3A.

For loans that do not either a) meet the criteria specified in the Table 3A header, or b) have one or more of the risk features specified in Table 3A: multiply by 1.0

3. The *risk-based required asset* factor is the lesser of the product derived in Step (I.i.2) or 100%.

ii. Multiply the *performing primary adjusted RIF* for each insured loan by the applicable *risk-based required asset* factor found in Step (I.i.3).

iii. Sum the products derived in Step (I.ii).

iv. Divide the sum from Step (I.iii) by the aggregate *performing primary adjusted RIF* used in Step (I.ii). If the result is greater than 5.6%, then the *risk-based required asset amount* for *performing primary mortgage guaranty insurance* is the sum calculated in Step (I.iii); otherwise, the *risk-based required asset amount* for *performing primary mortgage guaranty insurance* is the aggregate *performing primary adjusted RIF* used in Step (I.ii) multiplied by 5.6%.

v. *Example 1:*

1. For Step (I.i), an MI company has:
   a. $80,000,000 of *performing primary adjusted RIF* characterized as non-HARP, 2005-2008 vintage, original credit score 741-780, and original LTV of 85 < LTV <= 90, and
   b. $40,000,000 of *performing primary adjusted RIF* characterized as *HARP*, original credit score of 681-740 and original LTV of LTV > 105.
   c. Assume no insured loans meet the criteria specified in the Table 3A header.

2. Step (I.ii), multiply the *performing primary adjusted RIF* amounts above by the *risk-based required asset* factors in the corresponding grid cells. For Step (I.iii), sum the products:
   ($80,000,000 x 7.6% x 1.0) + ($40,000,000 x 9.7% x 1.0) = $9,960,000

3. Step (I.iv):
   a. $9,960,000 / ($80,000,000 + $40,000,000) = 8.3%
   b. 8.3% is greater than 5.6%; therefore, the *risk-based required asset amount* for *performing primary mortgage guaranty insurance* is $9,960,000

vi. *Example 2*:

1. For Step (I.i), an MI company has:
   a. $50,000,000 of *performing primary adjusted RIF* categorized as non-*HARP*, Post 2008 vintage, original credit score of 741-780 and original LTV of 85 < LTV <= 90
   b. Assume no insured loans meet the criteria specified in the Table 3A header.

2. Step (I.ii) Calculation:
   ($50,000,000 x 4.3% x 1.0) = $2,150,000

3. Step (I.iv) Calculation:

a. $2,150,000 / $50,000,000 = 4.3%
b. 4.3% is less than 5.6%, therefore the *risk-based required asset amount* for *performing primary mortgage guaranty insurance* is ($50,000,000 x 5.6%) = $2,800,000

vii. *Example 3*:

1. For Step (I.i), an MI company has:
   a. $90,000,000 of *performing primary adjusted RIF* characterized as Post 2008 vintage, original credit score 741-780, and original LTV of 90 < LTV <= 95. Each of these loans has both of the following risk characteristics: a) property is not owner occupied at origination, and b) Debt to Income Ratio > 43%.
   b. $75,000,000 of *performing primary adjusted RIF* characterized as GSE-eligible HARP, original credit score of 681-740 and original LTV of LTV > 105. Assume no insured loans meet the criteria specified in the Table 3A header.

2. Step (I.ii), multiply the performing primary adjusted RIF amounts above by the risk-based required asset factors in the corresponding grid cells. For Step (I.iii), sum the products:

   ($90,000,000 x 6.0% x 3.0 x 2.0) + ($75,000,000 x 9.7% x 1.0) = $39,675,000

3. Step (I.iv):
   a. $39,675,000 / ($90,000,000 + $75,000,000) = 24.0%
   b. 24.0% is greater than 5.6%; therefore, the risk-based required asset amount for performing primary mortgage guaranty insurance is $39,675,000

II. Calculating the *Risk-Based Required Asset Amount* for *Non-performing Primary Mortgage Guaranty Insurance:*

For purposes of this calculation, the term "non-performing" is defined as those loans that have missed two or more monthly payments. The *risk-based required asset amount* for *non-performing primary mortgage guaranty insurance* is calculated separately and the applicable *risk-based required asset* factors are determined based on the default status of the loan: 1) 2 – 3 missed monthly payments, 2) 4 – 5 missed monthly payments, 3) 6 – 11 missed monthly payments, 4) >= 12 missed monthly payments and 5) pending claim as defined in Table 5. The *risk-based required asset* factors for *non-performing primary mortgage guaranty insurance* are not segmented by vintage, LTV and other risk dimensions.

Calculation Steps:

i. Apportion the *non-performing primary adjusted RIF* across the default status categories in Table 5.

ii. Multiply the values calculated in Step (II.i) with the values in the corresponding cells in Table 5. Aggregate the results.

iii. *Example 4:*

1. For Step (II.i), an MI company has:
   a. $20,000,000 of *non-performing primary adjusted RIF* classified as 6 – 11 missed monthly payments.

b. $4,000,000 of *non-performing primary adjusted RIF* classified as Pending Claims

2. Step (II. ii) Calculation:
   ($20,000,000 x 78%) + ($4,000,000 x 106%) = $20,200,000; this is the *risk-based required asset amount* for *non-performing primary mortgage guaranty insurance*.

III. Calculating the *Risk-Based Required Asset Amount* for Performing and Non-Performing Loans Covered by Pool Mortgage Insurance Policies

The *risk-based required asset amount* for pool mortgage insurance policies (the "pool policy") is calculated for each pool, and then aggregated across all pool mortgage insurance policies as follows:

Calculation Steps:

i. Determine the performing *loan-level pool insurance RIF* covered by the pool policy by multiplying the initial insured principal balance for each performing loan by the applicable loan-level coverage percentage defined by the pool policy. If there is no loan-level coverage percentage defined in the pool policy, multiply the initial insured principal balance by 100%.

ii. Determine the non-performing *loan-level pool insurance RIF* covered by the pool policy by multiplying the initial insured principal balance for each non-performing loan by the applicable loan-level coverage percentage defined by the pool policy. If there is no loan-level coverage percentage defined in the pool policy, multiply the initial insured principal balance by 100%.

iii. For each pool policy:

1. Calculate the performing *risk-based required asset amount*:

   a. For each insured loan, establish the *risk-based required asset* factor:

      i. Find the applicable factor found in Tables 1, 2, 3, or 4 above, based upon the Original Credit Score, Original LTV, Vintage, and Loan Purpose of the insured loan. For loans refinanced through the HARP program, use the LTV ratio and credit scores at the time of the refinance.

      ii. For loans that a) meet the criteria specified in the header for Table 3A, and b) have one or more of the risk features specified in Table 3A: multiply the factor found in Step (III.iii.1.a.i) above by <u>each</u> of the applicable multipliers specified in Table 3A.

      For loans that do not either a) meet the criteria specified in the Table 3A header, or b) have one or more of the risk features specified in Table 3A: multiply by 1.0

      iii. The *risk-based required asset* factor is the lesser of the product derived in Step (III.iii.1.a.ii) or 100%.

   b. Multiply the performing primary adjusted RIF for each insured loan by the applicable *risk-based required asset* factor found in Step (III.iii.1.a.iii).

c. Sum the products derived in Step (III.iii.1.b).

2. Calculate the non-performing *risk-based required asset amount*:

   a. Apportion the non-performing *loan-level pool insurance RIF* across the cells of Table 5.

   b. Multiply the apportioned amount of non-performing *loan-level pool insurance RIF* in each cell of Table 5, as defined in Step (III.ii) by the applicable *risk-based required asset* factor in the corresponding cell

   c. Sum the results for all the cells.

3. Sum the amounts in Step (III.iii.1.c) and Step (III.iii.2.c).

4. The *risk-based required asset amount* for each pool policy is the lesser of the amount calculated in Step (III.iii.3) or the *net remaining stop loss* for the pool policy.

iv. Aggregate the *risk-based required asset amounts* calculated for each pool policy in Step (III.iii.4) across all pool policies to derive the total *risk-based required asset amount* for *pool mortgage insurance policies*.

v. *Example 5:*

1. For Step (III.i), for a single pool policy, an MI company has:
   a. $100,000,000 of performing *loan-level pool insurance RIF* characterized as 2005-2008 vintage, original credit score 741-780, and original LTV of 85 < LTV <= 90, and
   b. $60,000,000 of performing *loan-level pool insurance RIF* characterized as 2005-2008, original credit score of 681-740 and original LTV of 90 < LTV <= 95.
   c. Assume no performing insured loans meet the criteria specified in the Table 3A header.
   d. $5,000,000 of non-performing *loan-level pool insurance RIF* for loans that have 2 – 3 missed monthly payments, and $3,000,000,000 for loans having more than 12 missed monthly payments, and $1,500,000 for pending claims.
   e. A *net remaining stop loss* for the pool policy of $24,000,000.

2. For Steps (III.iii.1) through (III.iii.3), multiply the performing *loan-level pool insurance RIF* and the non-performing *loan-level pool insurance RIF* by the applicable *risk-based required asset* factor (or factors, for those loans meeting the criteria in the Table 3A header) found in Tables 1- 5, and sum the results:

   ($100,000,000 x 7.6% x 1.0) + ($60,000,000 x 16.6% x 1.0)
   + ($5,000,000 x 55%) + ($3,000,000 x 85%) + ($1,500,000 x 105%)
   = $24,435,000

3. For Step (III.iii.4), determine the *risk-based required asset amount* for the pool policy by the following:

a) The *risk-based required asset amount* for the pool policy is the lesser of a) $24,435,000 or b) $24,000,000.
b) Therefore, the *risk-based required asset amount* for this pool policy is $24,000,000.

4. Aggregate the *risk-based required asset amounts* calculated for each pool policy to derive the total *risk-based required asset amount* for *pool mortgage insurance policies.*

IV. Total *Risk-Based Required Asset Amount* Calculation

The *total risk-based required asset amount* is the sum of the *risk-based required asset amounts* for the following:
a) *Performing primary mortgage guaranty insurance*,
b) *Non-performing primary mortgage guaranty insurance*, and
c) *Pool mortgage insurance policies*.

Adjusted RIF	*Direct RIF* after adjusting for risk ceded to other parties as defined in Exhibit A.
Affiliate or Affiliated	A relationship between two entities, the first of which, referred to in this section as "Company A," is a person (including any natural person or corporation, business trust, general or limited partnership, limited liability company, limited liability partnership, or other similar organization or legal entity), and the second of which, referred to in this section as "Company B," is a corporation, business trust, general or limited partnership, limited liability company, limited liability partnership, or other similar organization or legal entity: 1) Where Company A directly or indirectly owns or controls 10% or more of the voting shares or voting rights of Company B, through stock ownership or in any other manner, or 2) Where Company A is a *mortgage enterprise* and directly or indirectly owns or controls, either jointly or severally with other *mortgage enterprises*, 10% or more of the voting shares or voting rights of Company B, through stock ownership or in any other manner, or 3) Where Company A controls in any manner the election of a majority of the directors or trustees or members of the governing body of Company B, or 4) Where Company A is a *mortgage enterprise* and, either jointly or severally with other *mortgage enterprise*s, controls in any manner the election of a majority of the directors or trustees or members of the governing body of Company B, or 5) Where either Company A or Company B has a majority of directors or trustees or members of the governing body who are also directors or trustees or members of the other entity's governing body, or 6) Where Company A has the same ultimate parent company as Company B.
Agreed Upon Procedures Report	Report provided from *approved insurer's* external auditors indicating that testing has been performed on *approved insurers* policies and procedures for certification that *approved insurer* meets Section 103 Ownership/Corporate Governance of Approved Insurer.
Applicable Law	Any and all federal laws and regulations that govern or apply to an *approved insurer* and the conduct of its business operations, including any and all applicable laws and regulations of its state of domicile, each state in which it does business, and each state which asserts extraterritorial jurisdiction over the business operations of the approved insurer, as all such and other applicable laws may be amended and supplemented from time to time. By way of illustration and not limitation, applicable law includes such laws as may govern or apply to an *approved insurer* that pertain to fair housing, fair lending, equal credit opportunity, truth in lending, wrongful discrimination, appraisals, real estate settlement procedures,

Applicable Law (continued)	borrower privacy, data security, escrow account administration, mortgage insurance cancellation, debt collection, credit reporting, electronic signatures or transactions, predatory lending, terrorist activity, the ability to repay, or the enforcement of any of the terms of a mortgage loan. The term also includes any other applicable laws or regulations, compliance with which is required under these *PMIERs*.
Approved Insurer	A *mortgage guaranty insurance* company that has been approved by the *GSE* as qualified to guarantee or insure mortgages purchased by the *GSE*.
Automated Underwriting System or AUS	*Fannie Mae*'s Desktop Underwriter, *Freddie Mac*'s Loan Prospector or other automated mortgage credit risk underwriting system not owned or developed by an *insured*.
Available Assets	*Available assets* are defined in Section 704.
Capital Support Agreement	Any agreement that supports the *approved insurer*'s capital position, including but not limited to a guarantee by a parent or third-party, or net worth maintenance agreement.
Ceding Commission	A commission paid to a ceding insurer by a *reinsurer* to reimburse the ceding insurer for policy acquisition and administrative costs.
Claim Perfection Date	The date all information and documents required by the *approved insurer* to file a claim under the terms of its applicable *master policy* have been received by the *approved insurer*.
Contingency Reserve	A reserve for unexpected claim or loss contingencies that are in excess of required statutory case and incurred but not reported loss reserves for a mortgage guaranty insurer generally equal to 50 percent of premiums earned. Such reserve must be maintained for a period of 10 years, unless permitted to be removed earlier as a result of losses exceeding a defined threshold. (See *Model Act*, Section 16 (c), Reserves)
Convention Statement	The NAIC's statutory financial reporting standard that insurance company's file on a quarterly and annual basis with state insurance regulators.
Delegated Underwriter	*Mortgage enterprise* designated by the *approved insurer* to perform *Delegated underwriting*.

Delegated Underwriting	Delegation of the insurance underwriting decision by the *approved insurer* to a *mortgage enterprise*, on loans originated by that lender.
Direct RIF	The dollar amount of *mortgage guaranty insurance* coverage currently in-force the *approved insurer* has underwritten and is named as the obligated insurer or *reinsurer*, prior to any ceding or sharing of risk with any *reinsurer*.
Domestic State Insurance Regulator	The Department of Insurance or Insurance Commissioner for the state in which the *approved insurer* is domiciled.
Excess of Loss	A *reinsurance* arrangement whereby the *approved insurer* retains risk for a pool of loans up to a specified aggregate limit (expressed as a percentage of the pool balance), and the *reinsurer* assumes risk for the insured pool of loans once aggregate losses exceed the limit. Under an *excess of loss* arrangement, the aggregate pool risk for the qualified *reinsurer* may also be limited once losses reach a specified level, after which risk for the pool reverts back to the *approved insurer.*
Exclusive Affiliated Reinsurer	A *reinsurance* entity *affiliated* with an *approved insurer* that provides *reinsurance* exclusively for the benefit of the *approved insurer*.
Fannie Mae	The Federal National Mortgage Association
Flagship	The insurer in any family of insurance companies that is the primary writer of *mortgage guaranty insurance* on mortgages securing one- to four-unit residential properties in the United States.
Freddie Mac	The Federal Home Loan Mortgage Corporation.
“GSE”	One of the government sponsored enterprises: Fannie Mae or Freddie Mac.
Home Affordable Refinance Program (HARP)	HARP is a refinancing program offered by Fannie Mae and Freddie Mac that provides a mortgage refinance option designed to help borrowers who may be ineligible for traditional refinancing because they have little or no equity.

Immediate or Immediately	Within two business days.
Insured	The policyholder or the person/entity so defined by the applicable *master policy*.
Lender Captive Reinsurance	*Reinsurance* that is issued by an *affiliate* of a *mortgage enterprise* that covers mortgages insured by the *approved insurer*.
Lender Captive Reinsurer	An *affiliate* of a *mortgage enterprise* that reinsures mortgages insured by an *approved insurer* that are originated, purchased, sold or serviced by a *mortgage enterprise*.
Performing Loan-Level Pool Insurance RIF	For each loan covered by the *approved insurer* under a pool insurance policy that are, as of the reporting date, current or not having missed more than one monthly payment: the product of a) the initial insured principal balance and b) by the applicable loan-level coverage percentage defined by the pool policy. If there is no loan-level coverage percentage defined in the pool policy, multiply the initial insured principal balance by 100%. See Exhibit A.
Master Policy	The form of *mortgage guaranty insurance* policy and related endorsements that have been approved by the *GSE* and issued by the *approved insurer* to its customers.
Material	Any change, event, or information where there is a substantial likelihood that such change, event or information either individually or together with other changes, events, or information is relevant to the *GSE*, including without limitation: • the *GSE's* determination of the financial and/or operational condition or claims-paying ability of the *approved insurer*; • the value of the insurance provided to the *GSE* by the *approved insurer*; • the continued ability of the *approved insurer* to write new insurance in jurisdictions where it is licensed to do so; or • where in some other manner negatively impacts the *GSE*. The SEC's regulations that govern securities registration and disclosure can be used as a guideline to evaluate whether such change, event, or information may be relevant to the *GSE*.
Model Act	The Mortgage Guaranty Insurance Model Act published by the NAIC in July 2000.

Mortgage Enterprise	A mortgage broker, lender, originator, seller or servicer of 1-4 family residential mortgages or any entity to which a *master policy* has been issued. The term does not include a *GSE.*
Mortgage Guaranty Insurance	The primary or pool-level insurance or guarantee against financial loss by reason of nonpayment of principal, interest and other sums agreed to be paid under the terms of a note, bond or other evidence of the indebtedness secured by a mortgage, deed of trust or other instruments constituting an enforceable lien or its equivalent, or charge on personal property, or on real property (which terms shall not include any property commonly known as a "mobile home") that is an improvement designed for occupancy as a residential structure.
Mortgage Payment Record	A historical record of payments made by a borrower on a mortgage loan. Such record should include (at a minimum) the amount of each payment, the payment due dates, and the dates on which payments were received.
NAIC	The National Association of Insurance Commissioners.
Net Remaining Stop Loss	For pool mortgage guaranty insurance policies, the initial aggregate stop loss amount for the policy net of any pool policy deductible, minus any benefits paid to date.
Newly Approved Insurer	An *approved insurer* that has been an *approved insurer* for less than three years or an *approved insurer* that, at the *GSE's* discretion, is designated as a *newly approved insurer* due to a *material* change in *approved insurer's* ownership, control or organization.
Non-Exclusive Affiliated Reinsurer	A *reinsurance* entity *affiliated* with an *approved insurer* that provides *reinsurance* to insurers other than, or in addition to, the *approved insurer*.
Non-performing Loan-Level Pool Insurance RIF	For each loan covered by the *approved insurer* under a pool insurance policy that have, as of the reporting date, missed more than one monthly payment: the product of a) the initial insured principal balance and b) by the applicable loan-level coverage percentage defined by the pool policy. If there is no loan-level coverage percentage defined in the pool policy, multiply the initial insured principal balance by 100%. See Exhibit A.
Non-performing Primary Mortgage Guaranty Insurance	Primary *mortgage guaranty insurance* covering loans that have, as of the reporting date, missed more than one monthly payment. See Exhbit A.

Officer	An employee of the *approved insurer* that has been designated a corporate officer by its board of directors.
Operational Performance Scorecard	A quarterly scorecard used by the *GSE* to monitor the operational performance of an *approved insurer*.
Pending Claim	A claim for mortgage insurance benefits that has been filed with an approved insurer but has not been paid.
Performing Pool Insurance RIF	*Risk in force* associated with loans covered by the *approved insurer* under a pool insurance policy that are, as of the reporting date, current or have not missed more than one monthly payment. See Exhibit A.
Performing Primary Adjusted RIF	*Risk in force*, after netting for any approved ceded risk in accordance with GSE guidance, associated with loans covered by the *approved insurer* under a primary *mortgage guaranty insurance* policy that are, as of the reporting date, current or have not missed more than one monthly payment. See Exhibit A.
Performing Primary Mortgage Guaranty Insurance	Primary mortgage guaranty insurance covering loans that are, as of the reporting date, current or have not missed more than one monthly payment. See Exhibit A.
Private Mortgage Insurance Eligibility Requirements or PMIERs	The *GSE's* published requirements along with all other conditions required by the *GSE* related to the approval of private (as opposed to government) mortgage guaranty insurer applicant for *approved insurer* status and the continued eligibility of an *approved insurer*.
Quota Share	A *reinsurance* arrangement whereby loan-level risk in the form of mortgage insurance claim payments and premiums are shared with a *reinsurer* on a proportional basis.
Rating Agency	Any one of the following nationally recognized rating agencies: Standard & Poors, Fitch, or Moody's

Reinsurance	A contractual obligation with one or more reinsurers to reinsure all or a portion of the ceded insurance risks of an *approved insurer*.
Reinsurer	A *reinsurer* is one of the following: 1) An *approved insurer* unaffiliated with the ceding *approved insurer,* or 2) An *affiliate* of the ceding *approved insurer*, so long as (i) the ceding *approved insurer* meets the *eligibility requirements,* (ii) the *affiliate*'s sole purpose is to provide *reinsurance* for the ceding insurer, (iii) no direct or indirect ownership interest in the *affiliate* is held by a *mortgage enterprise*, and (iv) the *affiliate* is in compliance with applicable state insurance laws and regulations; or 3) A non-*affiliated* insurer or reinsurer that is not an *approved insurer* that meets all of the following requirements: a) A domestic or foreign (outside the state of domicile) *insurer,* or an alien, or a branch of an alien, insurance company (an insurance company incorporated under the laws of a foreign country), eligible and duly licensed to write *reinsurance* coverage, provided that the insurer or *reinsurer* also continually: i) Maintains a minimum total policyholder's surplus of $25,000,000, and ii) Maintains Financial Strength Rating of at least A- from either S&P or Fitch, A3 from Moody's, or A from A.M. Best, and iii) Complies with applicable state or foreign (if such reinsurer is not an admitted in the United States) laws, regulations and requirements.
REO	Real estate owned (REO) is property acquired through foreclosure or deed in lieu of foreclosure.
Risk-Based Required Asset Amount	As defined in Exhibit A.
Risk-in-Force (RIF)	The dollar amount of coverage the *approved insurer* has underwritten and is named as the obligated *insurer* or *reinsurer*, prior to any ceding or sharing of the risk with *exclusive affiliated reinsurers* or *lender captive reinsurers*, but net of risk ceded to *non-affiliated reinsurers* or to *non-exclusive affiliated reinsurers* on a *quota share* basis. In the case of primary insurance, the sum of each insured mortgage loan's current principal balance multiplied by such loan's coverage percentage or, in the case of pool insurance, the net remaining stop loss amount.

Risk Sharing Transaction	A transaction, agreement, program or arrangement involving the ceding, sharing, assuming, reimbursing or rebating, in whole or in part, of risks, liabilities, premiums, payments of any kind, including payments made in accordance with the terms of any *mortgage guaranty insurance* policy, or any other transfer of value, including without limitation, a *reinsurance* agreement, with any person including an *insured.* Excluded from this definition is the issuance of any new *mortgage guaranty insurance policy*.
Run-off	A status in which an *approved insurer* no longer issues new *mortgage guaranty insurance* policies but continues to be obligated under existing *mortgage guaranty insurance* policies.
Senior Management	The senior executives of the *approved insurer* responsible for managing the business that would typically include the chief executive officer, president, chief operating officer, chief financial officer and chief risk officer.
Suspension	Status when the *GSE* will not accept deliveries of mortgages insured by a formerly *approved insurer,* but the insurer has not been terminated.
Termination	Status in which a formerly *approved insurer* is not permitted to insure any loans owned by the *GSE* and is removed from the *GSE's* list of *approved insurers*.
Third-Party Risk Analytics Firm	A firm, acceptable to the *GSE*, engaged to conduct risk analytics of an *approved insurer's* book of business, including analyses such as projecting losses and claims paying ability.
Unearned Premium Reserves	An insurer's liability for its unearned premiums.