Honorable Mel Watt
Director
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20024

FHFA Request for Input - Private Mortgage Insurance Eligibility Requirements (PMIERS)

Dear Director Watt:

On behalf of America's more than 74 million homeowners and tens of millions of future households, the America's Homeowner Alliance (AHA) writes to offer comments in response to the recent Request for Input on the FHFA's proposed Private Mortgage Insurer Eligibility Requirements (PMIERS), as well as the guarantee fees, or 'G-Fees', charged by the respective Government Sponsored Enterprises (GSEs). The AHA welcomes the FHFA's efforts to make certain that Private Mortgage Insurers (PMIs) have adequate capacity to meet their financial responsibilities with regard to loans they insure that are subsequently sold to the GSEs. Our residential housing marketplace needs effective tools such as Private Mortgage Insurance to help facilitate low downpayment financing for America's homeowners.

The AHA believes the newly proposed Private Mortgage Insurer Eligibility Requirements (PMIERS) as currently written will lead to significantly higher costs disproportionately targeted at those least capable of sustaining them: minority homebuyers, lower-income, and first-time homebuyers alike. The result would be even greater systemic challenges to American homeownership than those that presently exist.

The Harvard Joint Center for Housing Demographic Report tells us that as many as 17 million new households will be formed in America between 2010 and 2025, 13 million of which will be minority households. This is the emerging face of homeownership in America. These well-qualified future homebuyers are in need of low downpayment, fixed rate, and affordable financing to be able to plan, budget, and enjoy the benefits of homeownership – this is the American Dream.

The time-honored dream of homeownership in America is being foreclosed through a perpetual constriction of credit and products - in particular the 97% conventional mortgage; increases to loan guarantee fees and Loan Level Price Adjustments; and now - proposed new Eligibility Requirements on Private Mortgage Insurance companies.

The newly proposed PMIERs presumably provide some measure of counterparty risk mitigation for the GSEs. However, they provide no immediate value to the homeowner of tomorrow, or the American taxpayer of today. They are simply another 'tax on homeownership' imposed upon the marketplace, ostensibly without the necessary cost-benefit analysis of the potential value to the next homeowner, or the residential housing marketplace as a whole.

For the past few decades, private mortgage insurance (Private MI) companies have operated under strict rules promulgated by their State Regulators. Those rules required specific capital, reserves, and leverage standards in order for these Private Mortgage Insurers to write new insurance while also insuring their ability to pay any resulting legitimate claims. It is our understanding that the numerous Private Mortgage Insurance companies who survived the Great Recession did so by paying their legitimate claims while maintaining their approved status as defined by their Regulators. In addition, we understand they paid more than $40 Billion of claims to the GSEs, acting as a risk buffer between the GSEs and the taxpayer.

The following critical issues should be highlighted:

1. The GSEs have a statutory responsibility in their respective Charters to serve the market as a whole and to do so for low-to-moderate income consumers generating a return that may well be lower than the return on other parts of their business. The AHA contends that Congress intended for the GSEs to "subsidize" their returns on loans in low-to-moderate income neighborhoods in order to be granted their special privileges. As such the GSEs are performing a net public good. It appears the new PMIERs are both punitive and exceedingly harsh toward low-to-moderate income homeowners with modest downpayments and credit scores below 720. It seems inconsistent with the Charter requirements of the GSEs to suggest they should increase requirements and subsequently prices on this proven credit-worthy section of their activity. This same argument is true whether related to G-Fees and LLPAs, or to the new PMIERs.

2. Some in the marketplace have suggested that these new PMIERs may not result in any changes to the pricing of private mortgage insurance. The AHA openly questions whether any product or service required to hold more capital, increase reserves and lower leverage ratios as required in the PMIERs– including private mortgage insurance – could be provided to the marketplace without an increase in cost to the consumer. The answer is an unequivocal and resounding 'NO'. Common sense and basic mathematics tells us as much. Presumably some may choose to subsidize the added cost for a short period of time, but absent other special intervening circumstances, simple economics suggest prices will go up for many of our current and future members.

3. It is inappropriate public policy for the FHFA to use 'implied' capital in the GSEs when setting G-Fees or LLPAs. It is our understanding that the Payroll Tax Extension Act of 2011 gave the FHFA and the GSEs the authority to use 'implied' or imaginary capital when setting G-Fees and LLPAs. It is also our read of the legislation that the Director of the FHFA is supposed to take into consideration "conditions in the financial markets" to determine whether to use this 'implied capital' component in the statute. Our housing marketplace has not yet recovered. Homeownership rates in our marketplaces continue to decline. Dramatic credit tightening and the cost of credit are both still significant barriers to homeownership. The elimination of 97% conventional financing by the GSEs has eliminated access options for our constituents and forced a material share of our homeowners to the Federal Housing Administration (FHA) where mortgage insurance lasts the life of the loan. Now is not the time to be using implied or imaginary capital in the GSEs to set prices for consumers, nor is it appropriate to materially increase capital, reserves or reduce leverage requirements through the PMIERs to further reduce 'implied risk' at the GSEs.

4. It is inappropriate for the GSEs to pick 'winners and losers' in the private mortgage insurance industry by penalizing legacy MI companies for carrying remaining books of business. We believe the legacy Private MI companies originated their historical book of business with capital, reserves and leverage thresholds set by their regulators at the time of origination. They extended opportunity to millions of homeowners during the Great Recession to help bridge the gap through this crisis and continue to serve our marketplaces. To retroactively require additional capital and other provisions on these historical books of business is an unacceptable public policy serving only to provide strategic advantage to new market entrants, even after the legacy Private MI companies paid over $40 Billion of claims to the GSEs. In addition, the performance of these loans improves month after month, materially reducing the risk of loss. To add more capital and other provisions on these loans is simply unwarranted in this environment.

5. If ANY changes are made to increase capital, reserves, or to lower leverage thresholds for Private Mortgage Insurers, a commensurate decrease in G-Fees or LLPAs must accompany those changes. Clearly, if there are more rigorous standards for Private MI, and those presumably decrease counterparty risk for the GSEs, then consumers MUST see a

commensurate material decrease in G-Fees and LLPAs. Although, as we stated, we still firmly believe there should be no material changes to the eligibility requirements for the Private MI's. The marketplace simply does not support or warrant tougher standards at this time.

6. G-Fees should be materially reduced irrespective of the outcome of the PMIERs. On typical conventional mortgage transactions with less than 20% downpayment, we find that private mortgage insurance provides FIRST LOSS coverage at rates that are below those G-Fees and LLPAs charged by the GSEs – and the GSEs are in SECOND LOSS position.

Conclusion

Private Mortgage Insurance is a necessary tool to facilitate homeownership in our markets. The legacy companies and the new market entrants have increased their capital standings on their own and have survived the greatest "stress test" they will ever encounter - the Great Recession. They provide an alternative to the FHA that today (in many cases) provides private capital execution with insurance that is less expensive than the government-backed FHA program. In addition, in most cases, Private MI is cancellable after the borrower reaches specific thresholds. Private MI is not only necessary, but essential in our very fragile marketplaces. To suggest material increased requirements through the PMIERs in this environment is simply unacceptable, because the cost WILL be passed on to the consumers we serve, making the dream of homeownership even less attainable.

We thank you for your consideration.

Respectfully,

Tino Diaz
Managing Director – Chief Administrative Officer
America's Homeowner Alliance
Ellisville, Missouri 63011