

CMG MORTGAGE INSURANCE COMPANY
MORTGAGE GUARANTY INSURANCE CORPORATION
PMI MORTGAGE INSURANCE COMPANY
RADIAN GUARANTY, INC.
REPUBLIC MORTGAGE INSURANCE COMPANY
TRIAD GUARANTY INSURANCE CORPORATION

January 17, 2002

Mr. Alfred Pollard
General Counsel
Office of Federal Housing Enterprise Oversight
Fourth Floor
1700 G Street, N. W.
Washington, D. C. 20552

Re: Comments on OFHEO's proposal to amend its Risk-Based Capital Regulation

Dear Mr. Pollard:

The undersigned AA-rated private mortgage insurance companies are pleased to submit comments on the proposed amendments to Appendix A Subpart B of 12 CFR 1750 Risk-Based Capital announced on December 11, 2001.

We were very pleased to see that OFHEO is proposing to reduce the haircut differential between AA and AAA-rated mortgage insurance from ten percentage points to 5.25 percentage points, to lengthen the phase in period for the haircut from five to ten years and to utilize recovery rates in calculating the final capital haircut. We fully support the lengthening of the phase in period, and believe that the reduction in the AA/AAA differential and utilization of recovery rates in calculating the final haircuts are steps in the right direction. However we continue to believe and recommend, at the very most, that only a nominal differential in the haircut be required. The pertinent data and analysis support equivalent capital treatment for all mortgage insurance companies.

We believe strongly that the latest proposed differential in capital treatment between mortgage insurance written by AAA and AA mortgage insurance companies is not supportable by any critical examination of available bond default histories, the regulated structure of the mortgage insurance industry or its underlying financial condition. Moreover, the proposed amendments to the Regulation could lead to capital differentials that represent a potentially significant advantage for AAA-rated mortgage insurers over AA-rated mortgage insurers. Consequently, the potential for significant industry consolidation, inherent in the Regulation, will concentrate rather than disperse counterparty risks, thereby endangering the safety and soundness of the Enterprises.

For consumers, this concentration of pricing power into a few AAA-rated insurers will inevitably increase the cost of homeownership. Additionally, the Regulation will stifle product innovation for high LTV, low- and moderate-income borrowers. In

addition, homeownership levels for the most vulnerable segments of our society will suffer. Thus, OFHEO's regulation would raise costs to first time homebuyers at a time when the economy is in decline and housing and a robust mortgage market are the only parts of the economy that are functioning well. To choose this time to subject the industry that makes it possible for first time homebuyers to buy their home, to enormous, and unnecessary costs seems unwarranted.

AA-rated mortgage insurers insure approximately \$340 billion in loans for the GSEs and have assumed about \$120 billion worth of risk that the GSEs are not exposed to because the AA-rated mortgage insurers are in a first loss position. A differential as significant as the one currently proposed in the capital haircut between AA-rated and AAA-rated mortgage insurers provide an incentive for a change in the current business behavior of the GSEs towards mortgage insurers. OFHEO has said repeatedly that one of their key objectives for this risk-based capital rules is to not change the business behavior of the GSEs. Thus, absent parity, only the most nominal differential will ensure that there is no artificial inducement for our customers or the GSE's to make radical changes in their business behavior.

The impact of such a change in business behavior by the GSEs towards the mortgage insurers will be significant and severe. In order to attain AAA ratings the AA-rated mortgage insurers would have to raise between \$5 – 6 billion in additional capital. In order to raise this capital the AA-rated mortgage insurers would have to assure investors of a reasonable return on their money.

For the foregoing reasons, we specifically request OFHEO to modify the proposed amendments to the Regulation in the following manner:

- Substitute a market-neutral differential for the current differential between AAA and AA mortgage insurance companies.
- Maintain the proposed 10-year phase-in of the capital haircuts.

We believe these changes are necessary to promote healthy competition in the mortgage marketplace, minimize taxpayer risk, and to further the goals of homeownership.

[Signatures to Follow on Next Page]

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