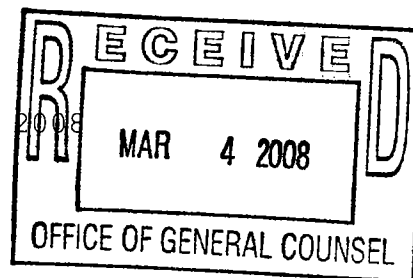




**Mortgage
Insurance
Companies
of America**

Suzanne C. Hutchinson
Executive Vice President

March 4, 2008



Alfred M. Pollard
General Counsel
Attention: Comments/RIN 2550-AA38
Office of Federal Housing Enterprise Oversight
Fourth Floor
1700 G Street, N.W.
Washington, D.C. 20552

RE: RIN 2550-AA38, Risk-Based Capital
Regulation --- Loss Severity Amendments

Dear Mr. Pollard:

The Mortgage Insurance Companies of America (MICA) are pleased hereby to comment on the proposal by the Office of Federal Housing Enterprise Oversight (OFHEO) on loss severity amendments to the risk-based capital rules intended to enhance recognition risk related to foreclosures [72 FR 68656]. MICA endorses the proposed change. However, we urge OFHEO not only to finalize this rule as quickly as possible, but also to move on to the many other needed revisions to the risk-based capital rules that can and should be accomplished under current law.

We agree with Director Lockhart's most recent statement that the risk based capital rule is just not working and is not capturing the risks that have become evident in the markets.¹ To be sure, Congress may, and MICA hopes soon will, revise the statutes related to these capital rules and give a new government-

¹ "I also note our risk-based capital (RBC) requirement is just not working, as it has yet to capture the risks we are currently observing. The problem was that RBC parameters were specified in law and this does not really give OFHEO the flexibility bank regulators have, which is needed to create a modern economic capital framework." Statement of Director Lockhart on "Reforming the Regulation of the Government Sponsored Enterprises," before the Senate Banking, Housing and Urban Affairs Committee, February 7, 2008, pp.13-14.

sponsored enterprise (GSE) regulator bank-like supervisory powers to craft an appropriate set of standards. However, the longer the current rules are kept in place, the less insulated the GSEs are from risk and, thus, the greater the systemic danger posed by these huge enterprises. Moreover, work undertaken now by OFHEO on these revisions would facilitate action by the new agency in this urgent area.

In particular, MICA again urges OFHEO to revise its rules to eliminate the cross-subsidization permitted between credit and interest-rate risk. As is recognized in the Basel II standards and most internal economic-capital allocation models, these risks can be closely correlated and indeed often are in mortgages where borrower payments are tied to changes in interest rates. This cross-subsidization thus permits the GSEs to hold far too little capital against both interest-rate and credit risk - particularly worrisome in light of the fact that the OFHEO rules do not reflect the concentration risk held by enterprises focused almost exclusively on a single asset class. MICA also urges OFHEO to revise its rules to apply risk-based capital based on the combined loan-to-value (LTV) ratio applicable to a GSE's position and to refine other measures of credit risk that differentiate subprime and non-traditional mortgage structures from far less-risky ones. MICA stands ready to provide detailed analyses to support these efforts and other revisions to the rules, again urging OFHEO to move expeditiously on them. Over the past several years we have submitted comment letters to the US bank regulators and Basel Committee concerning the best way of assessing loss given default and the role of credit risk mitigation.² We have also worked with the technical staff of the Federal Reserve and the Office of the Comptroller of the Currency to in analyzing

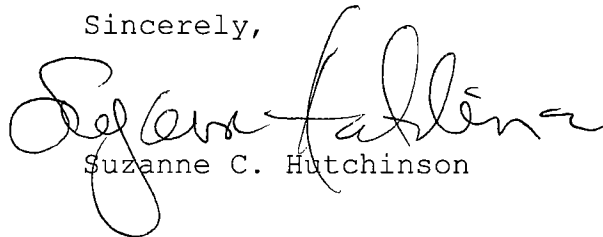
² See MICA comments to the US bank regulators on both Basel II and the proposed Basel IA approaches.

data related to the risks associated with low downpayment residential mortgages.³

As noted, MICA endorses the proposed changes to the loss-severity calculations proposed in the proposed rulemaking. It is clear that a negative loss on foreclosed properties should not be considered during the calculation of the risk based capital requirement. As noted in the proposal, profiting on defaults is not consistent with the credit stress environment envisioned in the Risk Based Capital Regulation regardless of whether the defaulted loan had a low loan-to-value ratio (LTV, is a high LTV loan guaranteed by the federal government or is privately insured.

As noted, we would be pleased to assist OFHEO in pursuing additional revisions to the current risk-based capital rules or, when legislation is soon finalized as well hope, in work on a more thorough rewrite and modernization of GSE risk-based capital requirements.

Sincerely,



Suzanne C. Hutchinson

³ In 2003, MICA provided data to Federal Reserve researchers examining models of mortgage portfolio performance developed to estimate stress loss levels and ensuing capital requirements. As part of that effort, the MICA group combined information on over 240,000 actual recovery values on defaulted loans between 1990 and 2002. Paul S. Calem and James R. Follain, *The Asset Correlation Parameter in Basel II for Mortgages on Single Family Residences*, Board of Governors of the Federal Reserve System, October 15, 2003. See also, *Loss Given Default of High Loan-to-Value Residential Mortgage*, Min Qi and Xiaolong Yang, Office of the Comptroller of the Currency, Economics and Policy Analysis Working Paper 2007-4, June 2007.