COMMUNITY MORTGAGE LENDERS AMERICA

PRESERVING FAIR STANDARDS FOR COMMUNITY LENDERS

September 8, 2014

The Federal Housing Finance Agency
Constitution Center
400 7th Street SW
Washington, DC 200014

Attn: Mortgage Insurance Eligibility Project

Dear Sir or Madam:

The Community Mortgage Lenders of America[1] is please to offer these comments on the draft Private Mortgage Insurer Eligibility Requirements. Our comments are divided into three sections: Why these Private Mortgage Insurer Eligibility Requirements are important; the objectives that should be met by the Standards and a Summary.

Why Private Mortgage Insurer Eligibility Standards are Important

CMLA members have one overriding factor in common: their sole or primary business is the origination of residential mortgages that allow the consumers they serve to buy a home. Doing everything we can to assure that government policies, regulations, procedures and laws facilitate the availability of affordable mortgage financing in order to permit CMLA members to accomplish their business is the reason that CMLA exists. In doing their business CMLA members look to extend credit to the broadest array of creditworthy borrowers who have the financial means to meet their mortgage and other financial obligations. Most of these eligible borrowers have saved for a down payment, but a significant portion of them have not necessarily saved an amount equal to 20 percent or more of the purchase price of the home they wish to buy. Hence they require low down payment financing with credit enhancement to accomplish their dream of homeownership.

[1] The Community Mortgage Lenders of America (CMLA) represents mid-sized and small community-based residential mortgage lenders, both banks and non-banks. Our members make the loans that permit American consumers to buy homes and realize their homeownership aspirations. The expansion of homeownership made possible by CMLA members leads to a strengthening of communities throughout the country

Our members have successfully served the financing needs of these credit worthy, low down payment borrowers through the use of private mortgage insurance, FHA insurance and, for those eligible veterans, a home loan guaranteed by the Veterans Administration (VA). While both the FHA insurance and the VA Home Loan Guaranty programs are doing a commendable job in facilitating affordable, low down payment financing for consumers, these programs cannot, and should not, be the sole sources of credit enhancement for low down payment lending. The private mortgage insurance industry, backed by private capital, has played, and should continue to play, a key role in providing credit enhancement for low down payment mortgages.

In order for the mortgage insurance industry to continue to play this key role the individual companies in the industry have to be well capitalized. The standards by which these companies insure loans have to be clear, with the rights and obligations of all parties carefully delineated. This combination of capital and careful delineation is important so that lenders, guarantors and investors have the assurance that claims on defaulted mortgages will be paid throughout the full range of financial environments – in times of recovery such as we are now experiencing and in times of extreme financial stress, such as we experienced in 2007-09. Without this assurance lenders, guarantors and investors discount the value of mortgage insurance, or cease using mortgage insurance altogether. In fact without this assurance market participants may favor other credit enhancement solutions that may not be as secure or effective as mortgage insurance from a well capitalized insurer. Such alternatives may lead to larger losses in stress environments, to the ultimate detriment of all market participants .

Thus these Private Mortgage Insurance Eligibility Requirements really serve two important objectives. First these Requirements meet the explicit mandate in the Fannie Mae and Freddie Mac charters to set standards for mortgage insurers eligible to provide coverage for loans purchased or securitized by the GSEs. Secondly, and equally important, these Requirements are also key to the broader mandate of the GSEs to provide stability and liquidity to the nation's mortgage markets and broader access to credit for American home buyers.

The Objectives that should be met by the Private Mortgage Insurance Eligibility Requirements

The objectives that should be met by the Private Mortgage Insurance eligibility standards are very straightforward and have two separate, but inter-locking facets. The objectives are clarity of coverage and ability to pay claims.

The first objective has been addressed by the project undertaken by the GSEs under the aegis of the Federal Housing Finance Agency (FHFA) to create greater certainty of coverage and greater uniformity among the master insurance polices employed by the individual mortgage insurers. The provisions of these new master policies, which are scheduled to go into effect within the coming weeks, will go a long way toward addressing the concerns of lenders, aggregators and the GSEs that there existed few, if any, uniform and objective guidelines or standards to determine certainty of coverage. This lack of uniform and objectives standards, with the resulting uncertainty, caused lenders, aggregators and the GSEs to discount the value of mortgage insurance coverage, ultimately causing greater inefficiencies in the mortgage market, with adverse consequences for borrowers and the marketplace as a whole.

These Private Mortgage Insurance Eligibility Requirements should address the second objective. In order to assure market participants that all approved private mortgage insurance companies have the ability to pay claims, even during times of extreme financial stress, the Private Mortgage Insurance Eligibility Requirements should set the capital requirements as high as necessary, but no higher than needed to accomplish this objective. The Private Mortgage Insurance Eligibility Requirements should address all company resources available to pay claims, as well as the liquidity of those resources, i.e. how easily can those resources be converted to cash in order to make claims payments.

Summary

Just as the GSEs Master Policy Project was linked with the Private Mortgage Insurance Eligibility Requirements both of these efforts are linked to a third – FHFA's re-calibration of GSE Guaranty Fees. With the achievement of greater certainty of coverage and certainty of ability to pay claims in a broad range of financial environments among the approved mortgage insurance companies the discount factor in the calculation of GSE Guaranty Fees for both those uncertainties can be eliminated. Consequently the full value of mortgage insurance can be recognized in the determination of GSE Guaranty Fees, and such full value recognition should lead to a downward adjustment of those fees with respect to this important factor.

In turn this great certainty of coverage and certainty of ability to pay claims should lead to a broader availability of low down payment financing for credit worthy borrowers on affordable terms, which should enhance stability and liquidity of the marketplace as well as access to credit.

Thank you for this opportunity to comment. Questions on our comment letter should be directed to our Executive Director, Glen Corso at 02-827-9989 or gcorso@thecmla.com

Sincerely,

Michael McHugh
CMLA Chair