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September 8, 2014

The Honorable Mel Watt
Director
400 7th Street, SW
Washington, DC 20024

Re: 2014-N-9: Draft Private Mortgage Insurer Eligibility Requirements

Dear Director Watt:

On behalf of Radian Guaranty Inc. (our principal private mortgage insurance company, herein referred to as "Radian"), the investors in our publicly traded holding company, our employees, customers, and low-to-moderate income and first-time homebuyers who depend on mortgage insurance to realize their American dream, we appreciate this opportunity to provide input on the proposed draft Private Mortgage Insurer Eligibility Requirements (PMIERs).

Radian understands and supports the need for strong counterparties to Fannie Mae and Freddie Mac (the GSEs) and the need for robust, reasonable and well-defined standards against which private mortgage insurers (MIs) should be measured. After all, MIs have relieved the taxpayers from paying over $42 billion in losses to the GSEs since the crisis began, and they are projected to pay approximately $50 billion in total in respect of the crisis, while insuring over three million new mortgages. Obviously, there are lessons to be learned from the recent past and appropriately tailored, transparent capital standards will only further bolster the confidence of regulators, investors, and the housing finance market in general that MI remains the most effective means for transferring risk to the capital markets and supporting the return of a robust housing market. Unfortunately, we believe the PMIERs, as currently drafted, fail to achieve these important objectives as they are neither well-tailored nor reflective of the true causes of the financial crisis nor the realities of the housing market going forward.

Leading up to the financial crisis, the primary weakness in the housing finance system was the unknown risks associated with exotic mortgages, many of which were not fully underwritten by loan providers but, nonetheless, were eligible for sale to the GSEs. The harm caused by these loan products and poor underwriting has been well documented, and lenders and regulators (in particular, through the promulgation of the new Ability-to-Repay rules) have taken many necessary steps to address these concerns. The consequences of which have been the overall origination of lower-risk loans, but also much tighter credit standards and the unavailability of credit to many creditworthy borrowers. The draft PMIERs do not acknowledge this new reality and, in failing to do so, threaten to undermine the Federal Housing Finance Agency's (FHFA) mission to maintain the

availability of mortgages for creditworthy borrowers and reduce taxpayer risk at the GSEs.

Fortunately, with *modest improvements* to the draft PMIERs, we believe it is possible to appropriately resolve many of the competing concerns at play in the PMIERs, including reducing counterparty risk and maintaining access to credit, without unjustifiably harming borrowers, the already-fragile housing market, and Approved Insurers.

Anticipated Harmful Impacts

Based on our review of the draft PMIERs and in light of the possible impacts on customers we serve, the community of private homebuyers who benefit from our product, and taxpayer resources, we have the following concerns:

1. **The PMIERs will increase the cost of borrowing and reduce access to credit for prospective homeowners, especially creditworthy borrowers with lower qualifying credit scores and modest down payments.**

   Private MIs are ready and willing to prudently expand their credit standards and find ways to insure loans to borrowers who are worthy of homeownership, but who also may pose a higher risk of default. However, due to a number of structural and empirical flaws, which we discuss below and in our responses to the PMIERs' Request for Input (see Appendix 1 for our detailed responses), the financial requirements imposed by the draft PMIERs significantly exceed those required to withstand a severe stress scenario. The harmful impacts of these unfounded financial requirements are further exacerbated by a number of operational requirements that are unduly burdensome and result in added costs without providing enough, or any, appreciable reduction in the GSEs' exposure to counterparty risk or represent an improvement over current industry practices. Combined, these excessive financial and operational requirements likely will result in a significant increase in Approved Insurer's premium rates and unjustifiably increase the cost of borrowing for broad segments of prospective homeowners. This will be especially true for creditworthy borrowers of modest means who already face substantial difficulty accessing affordable credit opportunities in today's stringent underwriting environment.

   A recent study by Moody's Analytics highlights the disproportionate impact that the draft PMIERs' financial requirements will have on creditworthy prospective homebuyers of modest means. According to this study, "MI premiums on a 95 percent LTV loan to a borrower with a 700 credit score would rise by 20 to 25 basis points, and by 60 to 65 basis

points for a borrower with a 650 score. The MI premium increase for borrowers with scores below 680 would be so significant that a FHA loan would be more affordable for most."[1] Our detailed analysis, provided in the response to question 40 in Appendix 1, draws similar conclusions about the impacts on premiums and borrower costs.

Any cost increase or access hurdle will make homeownership less accessible and attainable for millions of aspiring homeowners. The desire, demand, and difficulty in obtaining affordable, sustainable mortgages with modest down payments of less than 20 percent are going to exponentially increase in the next 10 years, particularly since nearly 74 percent of all new households formed in the United States will identify themselves as part of a traditional minority group.[2] These minority borrowers typically do not have the same generational wealth or savings to fund a down payment as non-minority homebuyers. Frequently, this translates into a prospective homebuyer purchasing a home with very modest down payments (five to ten percent) and credit scores that demonstrate their creditworthiness (650-700 FICO), but also may be below the current average. As we know from our decades of experience in the industry, the loans made to borrowers with these credit scores are not inherently bad risks. In fact, the vast majority of such loans we insure never result in an insurance claim.

In sum, at a time when we should be exploring opportunities to expand the current limited availability of credit, we fear that the draft PMIERs will result in the dream of homeownership for qualified and creditworthy middle- and working-class borrowers remaining just that – *a dream* – as they are further priced out of homeownership altogether.

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[1] Zandi, Mark, Jim Parrott, and Cristian deRitis. "Putting Mortgage Insurers on Solid Ground." Moody's Analytics. September 2014.

[2] Masnick, George S., Daniel McCue, and Eric S. Belsky."Updated 2010-2020 Household and New Home Demand Projections." Joint Center for Housing Studies at Harvard University. Sept. 1, 2010. Available at http://www.jchs.harvard.edu/research/publications/updated-2010-2020-household-and-new-home-demand-projections

2. The PMIERs will increase risk and exposure to the federal government and taxpayers.

In addition to increasing overall borrowing costs, the increase in Approved Insurer premiums will steer prospective homebuyers toward the Federal Housing Administration (FHA), and enhance the reemergence of piggyback lending products, putting borrowers and taxpayers at increased long-term risk, as occurred during the Great Recession (a "piggyback" mortgage is the common phrase used to describe the simultaneous use of a second mortgage with a first mortgage to expressly avoid MI on loans sold to the GSEs). The draft PMIERs' excessive financial and operational requirements will make it increasingly difficult for MIs to compete with the FHA and piggyback loans in the market.

The unintended consequence of increased FHA activity is MORE taxpayer risk – not less. The FHA insures 100 percent of the loan amount if a home goes into foreclosure. Currently, taxpayers are on the hook for the over $1 trillion in mortgages that the FHA is insuring. MI, on the other hand, places private capital in a first-loss position behind the borrower's equity and generally represents 25 to 30 percent of the loan amount, which covers most of the losses that the parties to the mortgage transaction experience.

Similarly, continuing piggyback loans are bad for borrowers and taxpayers. They create unnecessary vertical risk integration and are untested on the scale necessary to protect the GSEs from loss. In fact, on loans with exactly the same borrower down payment, the GSEs typically experience greater losses on first-lien mortgages with piggybacks than on MI-insured loans. This is because first-lien mortgages with piggybacks generally have an 80 percent LTV, whereas MI-insured loans expose the GSEs to effective LTVs of less than 70 percent since MI generally covers the first 25-30 percent of the loan amount. (In a typical piggyback transaction, the first mortgage will be for 80 percent of the home value and is sold to the GSEs uninsured, while the second mortgage will be for 10-15 percent of the home value and is held on the lender's balance sheet.) As a result, MI reduces the severity experienced by the GSEs, in that MI typically covers losses down to an LTV level of 67 percent, whereas the GSEs are exposed to all losses on the 80 percent LTV first-lien loans accompanied by piggyback second mortgages. In addition, a recent statistical study conducted by Promontory Financial Group, LLC demonstrated that, overall, first-lien loans accompanied by a piggyback

from 2003-2007 were 50 percent more likely to result in a delinquency than a loan with MI,[3] demonstrating that in addition to a reduction in severity upon default, MI reduces the probability of default compared to uninsured first-lien mortgages with piggybacks.

In short, we believe that the draft PMIERs' impact on premiums threatens to diminish MI as a key source of private capital in the housing market that has paid nearly $42 billion of claims to the GSEs since the start of the crisis and which stands willing and able to increase its presence as an effective source of private capital in the housing finance market.

3. The PMIERs will disproportionately and unjustifiably impact legacy MIs.

If implemented as proposed, the draft PMIERs would disproportionately and unjustifiably impact legacy private MIs – precisely those companies that continued to pay claims and write new insurance in support of the housing recovery. As detailed below, this disproportionate impact is a result of: (1) the inexplicable exclusion of non-refundable Unearned Premium Reserves (UPR) from the calculation of Available Assets, (2) the limited and understated credit given to future premiums in the calculation of Available Assets, (3) the overly punitive and unsupported treatment of delinquent loans, and (4) the unjustifiably excessive capital requirements for those 2005-2008 vintage loans (legacy book of business) that have performed without delinquency throughout the Great Recession. These four factors, which are included in the draft PMIERs without a supportable basis, would disproportionately impact those private MI companies that stayed open for business and insured new loans during and after the crisis.

Retroactively requiring legacy MI companies to unwarrantedly overcapitalize legacy books of business inappropriately impacts those companies that have supported the marketplace through the crisis and today. If some non-legacy MIs declare they have no issue with these draft PMIERS, then that is further evidence of an unlevel playing field or structural advantage (attributable to the legacy versus non-legacy divide) that must be identified and addressed by the FHFA and GSEs prior to finalization.

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[3] Promontory Financial Group. "Assessing the Delinquency and Default Risk of Insured and Non-Insured High LTV Mortgages." July 15, 2011.

<u>Key Issues and Recommendations</u>

We believe that many of the harmful policy impacts noted above can be avoided with modest improvements to both the financial and operational requirements of the draft PMIERs. To that end, in <u>Appendix 1</u> to this letter, we respond in detail to many of the questions included in the Request for Input. Additionally, in order to facilitate review of our primary concerns and recommended resolutions with respect to the draft PMIERs' financial and operational requirements, we include the following for your consideration:

Financial Requirements

1. Credit for Premiums in the Calculation of Available Assets
2. Adjustments to the Risk-Based Required Asset Factors
3. Treatment of Subsidiary Capital/Radian Asset
4. Clarification of the Timeline for Initial Compliance
5. Reinsurance and Risk-Sharing Transactions

Operational Requirements

6. Loss Mitigation and Liquidation Workout Delegation Demand
7. Remediation Options
8. Establishment of an Independent Appellate Panel
9. Lender Approval Guidelines
10. Operational Performance Scorecard

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<u>Financial Requirements</u>

1. Credit for Premiums in the Calculation of Available Assets

The draft PMIERs' failure to give any credit in Available Assets to non-refundable UPR or future premiums in respect of post-2008 business is clearly inconsistent with the draft PMIERs' definition of Available Assets and its treatment of required capital, which requires capital to be held on Day One against projected claims over the entire life of insurance coverage, even though potential claims are unlikely for years. The failure to give credit to this UPR and future premiums, which would be available to pay claims, is the primary reason that the capital requirements in the draft PMIERs significantly exceed those required to withstand a severe

stress scenario.[4] Further, this failure is likely to increase the cost of private MI because the draft PMIERs' capital requirements factor in all future losses, but no future unearned premiums for post-2008 business. This would particularly impact creditworthy borrowers with lower qualifying credit scores and more modest down payments, since premiums are set at higher levels for these borrowers.

a. Unearned Premium Reserves (UPR)

Issue: UPR are non-refundable and readily available to pay claims, but are inexplicably excluded from the calculation of Available Assets.

Resolution: The definition of "Available Assets" should include non-refundable UPR because they are "readily available to pay claims." To better address any concerns about state regulatory action with respect to UPR, credit for UPR should be included so long as an Approved Insurer is in compliance with state regulatory capital requirements.

Rationale: The proposed financial requirements of the draft PMIERs incorporate a claims paying resources concept, whereby only assets that are liquid and readily available to pay claims are counted towards Available Assets. Yet, the draft PMIERs calculation of Available Assets excludes prepaid, nonrefundable UPR, even though they are both liquid and immediately available. Nonrefundable UPR are today, and in the future will remain, available for the payment of claims. Radian believes it is inconsistent to exclude nonrefundable UPR from a definition of Available Assets that is based on readily available liquidity. It is worth noting that Radian's nonrefundable UPR would have represented 15 percent of its Available Assets as of June 30, 2014, if included. This is clearly a material amount of assets at stake.

The GSEs have cited the exclusion of UPR from Approved Insurers' claims paying resources in certain state receivership situations as the basis for excluding UPR from the definition of Available Assets. To address statutory concerns of this nature, instead of excluding UPR, a very material resource that otherwise

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[4] This concept is further discussed in detail in the response to Question 16 in Appendix 1, Section B.

satisfies the GSEs' definition of Available Assets, we believe the GSEs' concern can be easily addressed by providing that UPR will be included only so long as the Approved Insurer is in compliance with state capital requirements, or alternatively, within a pre-defined margin of compliance.

Further detail is provided in the responses to Questions 22, 30 and 34 in Appendix 1.

b. Future Premiums

Issue**:** The capital credit given for future premiums is recognized only for limited vintages and is understated.

Resolution: A premium credit of 300 percent should be applied to an Approved Insurer's entire book of business, as opposed to the currently proposed 210 percent on only the pre-2009 vintages.

Rationale: Giving credit for future premiums is consistent with the concept of readily available assets, given that the default and claim process on current loans will play out over time during which significant premiums will be received on the vast majority of the loans that do not default. Currently, the draft PMIERs require capital to be held against future losses on all vintages on Day One, but give no credit for the receipt of future premiums on 2009 and later vintages, including the high-quality business being written today. We propose that the future premium credit be applied to an Approved Insurer's entire book of business, as opposed to just the pre-2009 book of business, since the premiums on the new business are at least as likely to be received as the premiums from the pre-2009 books.

In addition to the future premium credit being based on the entire book of business, a rate of 300 percent should be applied instead of the proposed 210 percent. Radian performed analysis to examine the impact if the draft PMIERs had been in place at year-end 2009, a period in the middle of the recent severe stress environment when default rates on Radian-insured loans were near all-time highs. A hypothetical runoff scenario based on this stressed period shows definitively that premiums earned through the second quarter of 2014 would have translated to a premium credit in excess of 300. Interest rates during this stressed period were at historically low levels, providing a significant refinance incentive,

yet we still observed a meaningful amount of premium revenue that would not be counted under the draft PMIERs framework. Accordingly, for future premiums, a credit of 300 percent should be applied to an Approved Insurer's entire book of business, as opposed to the currently proposed 210 percent on the pre-2009 vintages. Given that we received premiums in excess of this amount during and following one of the most severe housing and economic downturns in history, we believe 300 percent represents an appropriately conservative premium credit.

Further detail is provided in the responses to Questions 22, 31 and 33 in Appendix 1.

2. Adjustments to the Risk-Based Required Asset Factors

We accept the GSEs' movement toward a risk-based capital framework and the draft PMIERs' asset factor grid-based approach. However, based upon historical loan experience and our own and third-party actuarial analyses, we believe the capital requirements imposed by the draft PMIERs significantly exceed those required to withstand a severe stress scenario and a number of the asset factors are unjustifiably excessive and contrary to empirically supportable claim projections. (Further detail is provided in the responses to Questions 16-19, 22 and 23 in Appendix 1.) Among a myriad of concerns, most importantly, the risk-based required asset factor grids are fundamentally flawed with respect to the following: (1) the factors assigned to nonperforming/delinquent loans, (2) the lack of consideration for the seasoning of loans, and (3) the factors assigned to always performing 2005-2008 vintage loans.

a. Nonperforming/Delinquent Loans Asset Factors Grid

Issue: The asset factors applied to nonperforming loans are overly punitive and inconsistent with our empirically-derived claim projections, historical experience, third-party actuarial analyses and the macroeconomic scenario used to generate these factors (i.e., the CCAR Baseline scenario).

Resolution: Non-performing loan capital requirements should be aligned with historical experience and trends, empirically-derived claim projections and actuarial analyses. Accordingly, asset factor Table 5 (Nonperforming Insured Loans) of the draft PMIERs should be replaced with an alternative transition to claim rate table that features more granular delinquency groups and that is properly based on historical experience.

Rationale: If properly based on historical experience and actuarial analyses, the assumed transition to claim rates included in Table 5 should be significantly lower than what is currently proposed. Because the currently proposed asset factors are based on transition rates that are significantly higher than warranted, excess capital would have to be held against nonperforming loans, most of which will never result in a claim. This most likely would, in turn, increase borrowing costs and reduce the availability of credit for prospective homebuyers, particularly those at the edges of the existing credit box and any future expansion.

In addition, requiring that excess capital be held against nonperforming loans would unduly intensify the inherent pro-cyclicality of the capital framework embodied in the draft PMIERs, since capital requirements would dramatically increase in an economic downturn due to an increasing number of loans transitioning in and out of non-performing status. This means capital requirements for MIs would be significantly increasing in an economic environment where the ability to raise capital may be impractical and uneconomical. We believe this unnecessarily compromises the resiliency of the financial system to economic and real estate downturns.

Further detail is provided in the response to Question 19 in Appendix 1.

b. Seasoning Considerations

Issue: The risk-based required asset grids included in the draft PMIERs grids do not take into account loan seasoning.

Resolution: To account for the decreasing probability that performing loans will result in claims as they season (age), a seasoning factor should be applied to all of the performing loan asset factor tables included in the draft PMIERs.

Rationale: The risk-based required asset factors in the performing loan tables of the draft PMIERs should decrease over time as a loan ages, or seasons, in order to reflect the decreasing risk of default as a loan continues to perform after origination. Empirical data and historical experience provide ample support for the inclusion of a loan seasoning factor. In addition, because the draft PMIERs propose to increase capital requirements for loans as they

transition to non-performing status, failure to reduce capital requirements for performing loans as they season will result in increasing aggregate capital requirements for particular vintages as they age (i.e., aggregate capital requirements will unwarrantedly move higher than projected cumulative claims). Accordingly, the failure to take seasoning into account exacerbates the existing pro-cyclicality of the draft PMIERs.

Incorporating a seasoning factor would also materially reduce the need to periodically update the grids – which, as presently drafted, include no explanations as to how they would be updated and create a significant amount of uncertainty as to how capital requirements for Approved Insurers could change over time and what the primary drivers of those changes will be. This causes significant issues when it comes to capital planning, return estimates and pricing decisions, since the capital Approved Insurers have to hold against loans could change over time in a manner that neither they nor their investors can estimate.

Further detail, including Radian's seasoning factor proposal, is provided in the responses to Questions 16 and 22 in Appendix 1.

c. "Always Performing" Loans (2005–2008) Asset Factors Grid

***Issue*:** The asset factors applied to never-delinquent ("Always Performing") 2005-2008 loans are unjustifiably excessive in light of our historical and current experience, significant credit burnout, default seasoning patterns and the macroeconomic scenario used to generate these factors (i.e., the CCAR Baseline scenario).

Resolution: Given the similarity in actual and expected performance for Always Performing 2005-2008 loans, and loans that were refinanced through the Home Affordable Refinaance Program (HARP), the asset factors applied to Always Performing 2005-2008 loans should parallel those applied to HARP loans in Table 4 of the draft PMIERs.

Rationale: There is no supportable basis for the asset factors in Table 2 of the draft PMIERs to be applied to Always Performing 2005-2008 loans given the demonstrable default and cure trends for these loans, their significant seasoning, and the fact that the draft PMIERs apply a CCAR Baseline scenario to these loans. These loans have continually performed with no 60 day delinquencies during one of the worst periods in the U.S. housing

market and the economy in general, demonstrating tremendous resiliency and a proven ability to pay in stressed circumstances. They are also well past their default seasoning peaks of three to five years after loan origination.

Further detail is provided in the responses to Questions 16 and 18 in Appendix 1.

3. **Subsidiary Capital/Radian Asset:**

Issue: The draft PMIERs fail to acknowledge our unique capital structure by excluding 100 percent of Radian's investment in Radian Asset (a financial guaranty company) from the definition of Available Assets and providing a relatively short period of time for us to maximum the potential monetization of Radian Asset for the benefit of Radian Guaranty policyholders and the GSEs as policy beneficiaries.

Resolution: To maximize the monetization of Radian Asset, our investment in Radian Asset should be included in the Available Assets but phased out over a four-year period, consistent with Basel III treatment of changing capital regimes.

Rationale*:* Bank regulators have long understood that the imposition of changes to the banks' capital regime requires a meaningful transition period in order to avoid market disruptions. For example, banks were given a four-year period for compliance with the treatment of Accumulated Other Comprehensive Income (AOCI) under Basel III. Our proposal for a four year phase out of our investment in Radian Asset corresponds to this Basel III approach, as we believe a similar period is warranted with respect to the new treatment of subsidiary capital. The PMIERs should provide a reasonable period of time to implement the necessary changes, with partial credit for subsidiary capital being granted and phased out over time.

Uniquely for Radian, subsidiary capital is a material part of our statutory capital base. We currently utilize our investment in Radian Asset, which is in excess of $1 billion, as a part of our admitted statutory capital under the state regulatory regime. We have done so since 2008, when the decision to downstream Radian Asset to Radian Guaranty was undertaken in consultation with, and with the approval of, the GSEs. It was a prudent measure in order to keep Radian actively insuring new policies that aided all of our stakeholders, including the GSEs. The GSEs have benefitted substantially from this decision -- from the policies that were subsequently

written, which generated new capital, as well as from the billions of dollars of claims Radian has paid to the GSEs.

The GSEs should acknowledge that this change represents a significant change from the current statutory-based approach to capital and will materially impact Radian. The GSEs should further recognize that the longer the transition period, the greater is the likelihood that Radian will be able to maximize the value of Radian Asset, which will enhance the capital position of Radian Guaranty and ultimately benefit the GSEs, as policy beneficiaries. While we believe we will be successful in monetizing or otherwise utilizing the capital in Radian Asset, a greater transition period is likely to increase available execution alternatives and allow us more time to thoughtfully and selectively choose capital alternatives for complying with the PMIERs.

Further detail is provided in the response to Question 49 in Appendix 1.

4. Clarification of the Timeline for Initial Compliance

Issue: The "Overview of the PMIERs and Questions for Consideration" (Overview Document) for the draft PMIERs states that, subject to GSE approval there would be up to a two year transition period for compliance with the new financial requirements. However, the actual text of the draft PMIERs does not explicitly provide for this. Instead, the draft PMIERs require compliance within 180 days of the publication of the PMIERs (an unreasonably short period of time), with an extended transition period potentially available, as needed, for compliance with the PMIERs' financial requirements.

Resolution**:** The draft PMIERs should clarify and make explicit that Approved Insurers have two years to fully comply with the PMIERs financial requirements before they would be subject to remediation.

Rationale*:* With the exception of the treatment of Radian Asset discussed above, we accept that a two-year timeline for compliance with the PMIERs' financial requirements is reasonable. However, the proposed rules read such that compliance is required within six months but will not be fully enforced with regard to the financial requirements until after a subsequent 18-month transition period. This leaves an ambiguity that an Approved Insurer could be characterized as being "out of compliance" during months seven through 24, even though it was on a path to compliance within the transition period. This uncertainty should be resolved. The GSEs have enough control over the eligibility process from

Day One to recognize if a particular Approved Insurer is not on track to become compliant.

Further detail is provided in the response to Question 49 in Appendix 1.

5. Reinsurance and Risk Sharing Transactions

Issue: The reinsurance provisions are not specific and place undue discretion in the hands of the GSEs.

Resolution: The GSEs should create general guidelines by which reinsurance will be treated so that the requirements are more transparent. While we understand the rationale for a review by the GSEs of each transaction due to some of the inherent complexities in such transactions, a general framework is necessary.

Rationale: Approved Insurers need to understand not only the terms for which reinsurance will be acceptable, but also the level of acceptable "credit" they will receive from such arrangements. Reinsurance is an effective risk mitigation tool for Approved Insurers, and one which the GSEs should encourage; however, it will be operationally difficult to negotiate reinsurance transactions with counterparties without a general understanding of the ultimate impact on PMIERs compliance. The lack of sufficient transparency or specificity with respect to the treatment of reinsurance under the PMIERs could have the effect of limiting the use of reinsurance as a risk mitigant and prudent portfolio management tool.

Further detail is provided in the responses to Question 37 in Appendix 1.

Operational Requirements

6. Loss Mitigation and Liquidation Workout Delegation Demand

Issue*:* The economic penalty associated with an Approved Insurer declining to delegate loss mitigation and loan workout authority to the GSEs introduces significant safety and soundness concerns for Approved Insurers.

Resolution: The GSEs should remove the economic penalties for Approved Insurers associated with the Loss Mitigation Workout Delegation Demand and strictly enforce servicer compliance with their Loss Mitigation Guidelines.

Rationale: The GSEs should not threaten Approved Insurers with higher pricing for refusing delegation of loss mitigation. This is particularly true given that, as we have discussed with the GSEs, the liquidation workouts under existing delegations have been handled improperly and without compliance with GSE standards. With respect to Fannie Mae, these problems were the subject of a recent FHFA IG Report AUD-2014-015, "FHFA Oversight of Fannie Mae's Collection of Funds from Servicers that Closed Short Sales below the Authorized Prices," which identified significant issues with oversight of servicers under existing liquidation programs.

In light of these on-going issues, we believe that effectively forcing Approved Insurers to delegate their loss mitigation decisions to the GSEs, as policy beneficiaries, introduces significant safety and soundness concerns under state regulatory regimes and under common principles of insurance practices. For example, we believe it is improper to effectively force an Approved Insurer to allow the GSEs, as policy beneficiaries, to make loss decisions on its behalf without regard to an Approved Insurer's ability to review the insured loan file and analyze the strategy for loss mitigation. As is often the case, the GSEs' interests and the interest of an Approved Insurer in these circumstances are not always perfectly aligned.

Further, we believe that the private market discipline imposed by Approved Insurers serves as an important check against the potential for servicer error in the handling of short sales and other liquidation workouts. Unless and until the GSEs are able to demonstrate that they can effectively enforce their own liquidation workout standards, we believe any delegation of liquidation workouts to the GSEs undermines the discipline that the Approved Insurers bring to this important area.

Further detail is provided in the response to Question 12 in Appendix 1

7. Remediation Options

Issue: The lack of alignment between the GSEs' remediation options and the materiality of breaches of particular provisions of the PMIERs presents significant financial and operational risk for Approved Insurers, particularly since there is no appeals process for the GSEs' remediation actions. In addition, the short time period for Approved Insurers to be in compliance with the PMIERs requirements -- 180 days -- makes it essential that they be notified immediately following publication of the PMIERs where there are issues that need to be addressed.

***Resolution*:** As early as possible after the PMIERs final publication date, and prior to the PMIERs effective date, the GSEs should consult with each Approved Insurer regarding compliance with the PMIERs to clearly identify and document any specific issues that the Approved Insurer must address. After we receive feedback from the GSEs about any issues that need to be addressed, we should receive a reasonable period of at least 180 days to address such issues (by making necessary system and process changes) and come into compliance.

Further, GSE discretion to impose remediation options should be better defined to ensure that the option exercised is commensurate with the scope and seriousness of the breach of the PMIERs. The purpose of remediation should be to facilitate an Approved Insurer's compliance with the PMIERs, rather than increase the requirements over and above the PMIERs. For that reason, remediation Options 7 (Increase the minimum required assets), 8 (Further limit the types of assets that may be considered Available Assets), and 11 (Commute or restructure existing risk-in-force) should be removed from the list of Remediation Options in Section 901 of the PMIERs.

***Rationale*:** The lack of alignment between the materiality of an instance of non-compliance and the available remediation option can create an undue burden on an Approved Insurer's operations. For example, a timeline breach with respect to a single claim can subject an Approved Insurer to any one of the Remediation Options set forth in Section 901 of the PMIERs, including increasing minimum required assets. Under the draft PMIERs, the GSEs can exercise any of the Remediation Options, regardless of the nature or materiality of the breach.

In addition, certain remediation options would only increase the severity of the Approved Insurers instance of noncompliance (e.g., increasing the minimum required assets). The GSEs' remediation actions should be tailored to correcting particular breaches and ensuring PMIERs' compliance, with an appropriate materiality qualification included to limit the availability of certain significant remediation actions only to those breaches that jeopardize the counterparty strength of an Approved Insurer. Without this change, the GSEs' ability to change the financial requirements for an Approved Insurer in remediation creates significant uncertainty and complicates capital planning.

An up-front and on-going consultative process for ensuring compliance with the PMIERs will protect Approved Insurers from unexpectedly being subjected to a remediation action. To the extent a remediation action is

warranted, depending on the nature of the non-compliance, Approved Insurers should be given a reasonable period of time to remedy the breach before being deemed placed into formal remediation. To that end, a formal appeals process is necessary to address unacceptable or excessive remediation actions, inconsistent application of remediation actions by the GSEs, or disagreements in interpretations of PMIERs' compliance.

Further detail is provided in the responses to Questions 44, 45, 46, and 47 in Appendix 1.

8. Establishment of an Independent Appellate Panel

Issue*:* Currently, the GSEs retain unfettered discretion and the ultimate final say on all matters of significance to the Approved Insurers and their stakeholders under the PMIERs. The lack of due process regarding compliance with the PMIERs is likely to diminish many critical objectives of the PMIERs and also will serve to perpetuate uncertainty in the market at a time when we should be working to reduce uncertainty.

Resolution: We recommend the formation of an independent appeals process outside of the GSEs and the FHFA to address matters of compliance with the PMIERs, including issues of interpretation.

Rationale: The PMIERs are tremendously impactful to Approved Insurers, their numerous stakeholders, and the housing finance market in general. While their substantive terms may be subject to various opinions and debate, one common, irrefutable objective is that the PMIERs should enhance transparency, be consistently applied and, above all, serve as a means to reduce overall uncertainty with respect to the Approved Insurers and their relationships with the GSEs. The entities subject to the PMIERs should have an independent appeals process outside of the GSEs and the FHFA to address unacceptable or excessive remediation actions, inconsistent application of remediation actions by the GSEs, or disagreements in interpretations of PMIERs' compliance.

Further detail is provided in the responses to Questions 1a, 44, and 47 in Appendix 1.

9. Lender Approval Guidelines

***Issue*:** The requirements for review and approval of new lenders are excessive and expensive, and provide limited value-added benefit to the GSEs, lenders, consumers, or Approved Insurers.

Resolution: Approved Insurers should be permitted to define their own Lender Approval Guidelines, which may allow for the reliance on third parties, publicly available tools and data, as well as the GSEs' own approval of a lender as an eligible GSE Seller. The PMIERs should allow the Approved Insurer to ensure quality and compliance with underwriting standards through a lender monitoring process, as opposed to making this a requirement in the lender approval process.

Rationale: The requirements for review of new lenders are overly prescriptive, excessive, and expensive. Approved Insurers already have GSE-audited policies and procedures for new lender approval, quality control, and lender monitoring, each of which ensures that new lenders are submitting loans with acceptable risk profiles and high manufacturing quality. A review of every lender's processes and operational controls creates an unnecessary expense for Approved Insurers to approve every new lender, no matter how small, as well as a burden on lenders, who may need to conduct this review with numerous Approved Insurers. This increased excess cost, ultimately borne by the consumer, provides no demonstrable value benefit above current business practices.

Further detail is provided in the responses to Questions 1a, 15 and 42 in Appendix 1.

10. Operational Performance Scorecard

Issue: The design and use of the Operational Performance Scorecard (Scorecard) in the draft PMIERs may result in Approved Insurers becoming unnecessarily conservative in their underwriting and limit their ability to serve the low-to-moderate-income community.

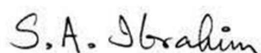
Resolution: The Scorecard should not be used to communicate a breach of the PMIERs, but instead should be used to warn of a potential breach if an identified issue has not been resolved within a certain period of time. The Scorecard also should measure each Approved Insurer compliance with the PMIERs and not performance against other Approved Insurers.

Rationale: The GSEs should work closely with Approved Insurers in setting Scorecard thresholds and should ensure flexibility for each Approved Insurer to make its own prudent risk management decisions. The Approved Insurer should be given appropriate time to resolve an issue of concern. The Approved Insurer also should have the ability to appeal certain applications of the Scorecard that it deems unfair, inappropriate or excessive.

Using Scorecard results to compare Approved Insurers would not be appropriate. Differences among the Approved Insurers processes (e.g. the quality control function and portfolio characteristics) would make such comparisons difficult, if not misleading or impossible. In addition, such comparisons could incent Approved Insurers to maintain conformity with the industry, thereby discouraging Approved Insurers from developing new products and services to serve the needs of many low-to-moderate income borrowers who may otherwise be denied credit access on affordable terms. Our concern is exacerbated by the severity of the remediation options under the draft PMIERs. We believe that underperformance of a Scorecard metric relative to other Approved Insurers should not be an event that is subject to remediation actions. Remediation only should be available when the Approved Insurer is in clear breach of an operational or financial requirement of the PMIERs.

Further detail is provided in the responses to Questions 6, 7, 8, and 9 in Appendix 1.

Sincerely,



SA Ibrahim
CEO, Radian Group Inc.

Teresa Bryce Bazemore
President, Radian Guaranty Inc.

Appendix 1: Radian Guaranty Reponses to the Request for Input

A. Business Requirements

1. Scope of Business:

a. How can the PMIERs ensure that Approved Insurers have long-term access to staff, services and technology that meet their operational needs for administering their insurance book of business?

While the PMIERs may require industry standard policies and procedures, they should not be overly prescriptive. An Approved Insurer should have the ability and flexibility to determine how best to manage its business and develop and administer its policies and procedures.

It is extremely important that the GSEs fully engage Approved Insurers to help them understand initial and ongoing expectations with the requirements of the PMIERs. As early as possible after the PMIERs final publication date and prior to the PMIERs effective date, the GSEs should consult with the Approved Insurer regarding compliance with the PMIERs. During this consultation period, the GSEs must clearly identify and document any specific issues that the Approved Insurer must address, allowing for an appropriate time period for the Approved Insurer to make necessary system and process changes in order to fully satisfy the PMIERs. After we receive feedback from the GSEs about any issues that need to be addressed, we should receive the full benefit of 180 days to come into compliance in order to make system and process changes. Please see Section 4 of the Comment Letter for more detail.

The GSEs should perform ongoing reviews of operational processes similar to the initial consultation described above. Any observations or issues uncovered during the review should be with sufficient notice to allow for a period of corrective action before any determination of non-compliance occurs.

Currently, the GSEs retain unfettered discretion and the ultimate final say on all matters of significance to the Approved Insurers and their stakeholders under the PMIERs. The lack of due process regarding compliance with the PMIERs is likely to diminish many critical objectives of the PMIERs and also will serve to perpetuate uncertainty in the market at a time when we should working to reduce uncertainty. As a result, we recommend the formation of an independent appeals process outside of the GSEs and the FHFA to address matters of compliance with the PMIERs, including issues of interpretation.

The PMIERs are tremendously impactful to Approved Insurers, their numerous stakeholders and the housing finance market in general. While their substantive terms may be subject to various opinions and debate, one common, irrefutable objective is that the PMIERs should enhance transparency, be consistently applied and above all, serve as a means to reduce overall uncertainty with respect to the Approved Insurers and their relationships with the GSEs. The entities subject to the PMIERs should have an independent appeals process outside of the GSEs and the FHFA to address unacceptable or excessive remediation actions, inconsistent application

of remediation actions by the GSEs, or disagreements in interpretations of PMIERs' compliance.

b. How can the PMIERs ensure that potential losses from insuring high-risk loan concentrations do not jeopardize an Approved Insurer's financial ability to pay claims on its lower risk portfolio?

Radian only insures loans that present an acceptable balance in terms of risk and return. The risk-based eligibility requirements and required asset factors in the draft PMIERs ensure that higher concentrations of lower FICO volume, higher LTV volume, or other layered risk factors, do not jeopardize an Approved Insurer's ability to pay claims, as an Approved Insurer must maintain significantly higher amounts of capital in respect of low FICO, high LTV and layered risk loans.

The GSEs should not impose additional requirements for portfolio diversification. Approved Insurers should continue to make their own decisions about credit availability and mortgage insurance (MI) offerings. This may result in (for example) a decision to serve lower FICO borrowers, potentially resulting in a higher concentration relative to the overall MI market. The PMIERs requirements will ensure that the Approved Insurer holds sufficient minimum required assets to pay losses on these higher risk loans. A portfolio diversification requirement, apart from the risk-based required asset factors, could have the unintended consequence of limiting the ability of Approved Insurers to adequately serve creditworthy higher risk borrowers.

Consistent with standards for regulated financial institutions, Radian supports an approach that establishes capital requirements for Approved Insurers based on an assessment of the risk of a company's exposures on a risk-adjusted basis. However, the draft PMIERs do not adequately take into account one of the basic principles of insurance; namely the diversification effects within an insurance portfolio. In that regard, the draft PMIERs overstate the amount of capital an individual portfolio would require. This will increase costs on borrowers overall while potentially denying access to credit altogether for some affected borrowers (this impact on borrowers is examined in more detail in the responses to Questions 40 and 41).

The draft PMIERs assume that loan defaults are independent from one another, which is not consistent with actual loan experience or other capital regimes. For instance, the Basel III capital standards for advanced internal ratings-based banks include an assumption regarding asset correlation in establishing risk-based capital for residential mortgages. Portfolio diversification for insurance companies comes in different forms such as by insuring risk over multiple origination periods (intertemporal diversification); by insuring risk across different products (product diversification) and by insuring risk on a broad geographic basis (geographic diversification). For well diversified portfolios, the benefit of diversification should be recognized through the application of a diversification factor to the final PMIERs capital requirements based on an empirical assessment of the MI industry loan correlation experience over time.

c. Should Approved Insurers have separately funded affiliates for insuring higher-risk products?

No, maintaining separately funded affiliates for higher-risk products is inconsistent with the notion of risk diversification across various products and credit attributes and is inconsistent with

practices of other regulated mortgage market participants such as commercial banks, which originate a wide range of mortgage products including those with higher-risk features. Such an approach could reduce credit availability by effectively preventing the cross-subsidization of higher-risk loans by lower risk loans, which is a fundamental principle of insurance risk management. Walling off entire sub portfolios of an Approved Insurer's portfolio without taking into account the offsetting nature of insurable risk within that portfolio artificially raises the amount of capital that would actually be needed to meet the actuarially required amount of capital to support the entire portfolio.

In addition, as discussed in the response to Question 1b, the risk-based eligibility requirements and required asset factors in the draft PMIERs ensure that higher-risk products (e.g., lower FICO and higher LTV volume) do not jeopardize an Approved Insurer's ability to pay claims, as an Approved Insurer must maintain significantly higher amounts of capital with respect to these higher-risk products.

2. **Should the adequacy of each Approved Insurer's risk-adjusted rates of return be measured? If so, what would be the appropriate calculation method for this measure?**

No, we believe that there are certain areas (such as risk-adjusted rates of return) that should remain the sole discretion of the management and board of an Approved Insurer, with regulatory oversight over safety and soundness provided by state insurance authorities. These are areas that are core to the business decisions and strategy of Approved Insurers, and therefore, areas in which GSE intervention (through prescribed measures or otherwise) would not be appropriate or necessary. The GSEs should accept this position given the financial requirements of the PMIERs, which are designed to ensure an Approved Insurer is a strong counterparty to the GSEs and other policyholders. How the Approved Insurer decides to comply with the PMIERs' financial requirements and to run its business with respect to risk-adjusted rates of return will be dictated based on business strategy, competitive market dynamics and other factors. Ultimately, the stockholders of the Approved Insurer and their affiliates will have the final determination over management's business decisions and the Approved Insurer's risk-adjusted rates of return, which we believe is appropriate.

Notwithstanding the foregoing, the GSEs should be sensitive to the fact that maintaining acceptable risk-adjusted rates of returns under the draft PMIERs will likely require an increase in pricing that could be harmful to the housing market and first-time home buyers of modest means in particular.

3. **If the Enterprises, in the interest of establishing strong counterparty financial requirements, expect an Approved Insurer to maintain "adequate" risk-adjusted rates of return for New Insurance Written (NIW), what might be benchmarks for the Enterprises to establish a reasonable range of such expected returns? Should the benchmark also be inclusive of the Approved Insurer's entire portfolio of Insurance in Force (IIF), or only a defined portion?**

Please see the response to Question 2.

4. **What counterparty risks might be raised by an Approved Insurer maintaining inadequate risk- adjusted rates of return on capital across its expected business profile?**

Please see the response to Question 2.

5. **Should an Approved Insurer be required to validate a third-party AUS prior to using the recommendations from these systems? If so, what type of analysis would be appropriate to sufficiently validate that the credit decisions from the AUS are in line with the Approved Insurer*'s* credit underwriting requirements?**

Yes, but the level of validation of the third-party AUS (including the GSEs' AUS systems) should be at the Approved Insurer's discretion. The Approved Insurer may choose to rely on an AUS data swap where the lenders' AUS output is compared to Loan Prospector® and Desktop Underwriter® or used to compare the AUS output to a prior version following an AUS system enhancement release. The Approved Insurer should also be permitted to rely on quality control testing to ensure the AUS output is consistent with a manually underwritten loan decision.

6. **Are there other Approved Insurer Operational Performance Scorecard metrics that should be considered?**

An early performance metric also should be considered. We believe that a 6, 12, 18, and 24 month default rate is a good indicator of the underwriting quality and risk profile of the Approved Insurer's new insurance written.

7. **How should Operational Performance Scorecard thresholds be determined?**

The Operational Performance Scorecard (Scorecard) should measure Approved Insurer compliance with the PMIERs and not performance against other Approved Insurers. The GSEs should work closely with Approved Insurers in setting Scorecard thresholds and should ensure flexibility for each Approved Insurer to make its own prudent risk management decisions.

We do not believe the Scorecard should be used to communicate a breach of the PMIERs. Rather, it should be used to warn of a potential breach if the identified issue has not been resolved within a certain period of time. The Approved Insurer should be given appropriate time to resolve the issue of concern. The Approved Insurer also should have the ability to appeal certain applications of the Scorecard that it deems unfair, inappropriate or excessive.

The Scorecard should only be used to measure Approved Insurer compliance with the PMIERs and not as a means to compare Approved Insurers and impose penalties on those operating outside the mean. The GSEs should work closely with the Approved Insurers in setting Scorecard thresholds and ensure flexibility for each Approved Insurer to make its own prudent risk management decisions.

Using Scorecard results to compare Approved Insurers would not be appropriate. Differences among the Approved Insurers processes (e.g. the quality control function and portfolio characteristics) would make such comparisons difficult, if not misleading or impossible. In addition, such comparisons may incent Approved Insurers to maintain conformity with the industry, thereby discouraging Approved Insurers from developing new products and services to serve the needs of many low-to-moderate income borrowers who may otherwise be denied credit access on affordable terms.

This concern is exacerbated by the severity of the remediation options under the draft PMIERs. We believe that underperformance of a Scorecard metric relative to other Approved Insurers should not be an event that is subject to remediation options. Remediation only should be available when the Approved Insurer is in clear instances of non-compliance with an operational or financial requirement of the PMIERs.

8. How should Approved Insurers be rated under the Operational Performance Scorecard?

Please see the response to Question 7.

9. How would Operational Performance Scorecard thresholds be applied?

The GSEs should engage in regular and transparent discussions regarding the Scorecard results and acceptable tolerances. These discussions will be important in providing an Approved Insurer with the necessary information to manage its business and to understand and ensure PMIERs compliance.

Please also see the response to Questions 1a and 7.

C. Settlements and Changes to Enterprise Rights

11. Section 307 contains requirements relating to the ability of Approved Insurers to enter into agreements with servicers or originators. Should the PMIERs contain provisions relating to agreements entered into between Approved Insurers and originators or servicers? If so, what provisions should be in place?

While Section 307 of the draft PMIERs specifies that single claim decisions in the normal course of business do not require GSE approval, this should be changed to decisions with respect to a single certificate so that Approved Insurers can have the same flexibility for non-claim decisions. In addition, the GSEs should avoid inserting themselves into agreements between Approved Insurers and Seller/Servicers that do not materially impact the GSEs' position as the policy beneficiaries.

There is negative impact to an Approved Insurer and Seller/Servicer when the GSEs insert themselves into a decision unnecessarily. The approval requirement results in increased time and expense and disrupts normal business operations. As a result, the PMIERs should include a carve-out to Section 307 for instances where the GSEs are not materially impacted by the agreement.

Finally, in considering greater flexibility for the Approved Insurers, the GSEs should recognize that the new draft Master Policies for Approved Insurers provide the GSEs with significant protections (including the ability to approve settlements) with respect to the Approved Insurers and Seller/Servicers. In light of these protections, the GSEs should be deferential to the Approved Insurers with respect to non-material settlements in the ordinary course.

D. Claims Processing and Loss Mitigation

12. Should the Enterprises impose pricing adjustments for acquired loans where an Approved Insurer does not provide a full delegation of loss mitigation? Does a lack of full delegation unnecessarily expose the Enterprises to foreseeable costs? Should there be exceptions to what constitutes full delegation of loss mitigation?

The GSEs should not threaten Approved Insurers with higher pricing for refusing the delegation of loss mitigation. This is particularly true given that, as we have discussed with the GSEs, the liquidation workouts under existing delegations have been handled improperly and without compliance with GSE standards. With respect to Fannie Mae, these problems were the subject of a recent FHFA IG Report AUD-2014-015, "FHFA Oversight of Fannie Mae's Collection of Funds from Servicers that Closed Short Sales below the Authorized Prices," which identified significant issues with the oversight of servicers under existing liquidation programs.

In light of these on-going issues, we believe that effectively forcing Approved Insurers to delegate their loss mitigation decisions to the GSEs, as policy beneficiaries, introduces significant safety and soundness concerns under state regulatory regimes and under common principles of insurance practices. For example, we believe it is improper to effectively force an Approved Insurer to allow the GSEs, as policy beneficiaries, to make loss decisions on its behalf without regard to an Approved Insurer's ability to review the insured loan file and analyze the strategy for loss mitigation. As is often the case, the GSEs' interests and the interest of an Approved Insurer in these circumstances are not always perfectly aligned.

Further, we believe that the private market discipline imposed by Approved Insurers serves as an important check against the potential for servicer error in the handling of short sales and other liquidation workouts. Unless and until the GSEs are able to demonstrate that they can effectively enforce their own liquidation workout standards, we believe any delegation of liquidation workouts to the GSEs undermines the discipline that the Approved Insurers bring to this important area.

Finally, to the extent that it is suggested that this delegation is necessary to obtain timely responses from Approved Insurers, we believe this contention simply is not supportable. For non-delegated decisions for loss mitigation, Radian generally communicates a decision to the servicer within 24 hours of the request.

E. Policies of Insurance

13. Should self-insurance be an appropriate method for Approved Insurers to meet the requirements for Fidelity Bond and E&O insurance?

Yes, Approved Insurers should be permitted to self-insure. The requirement that an Approved Insurer must maintain Errors & Omissions (E&O) insurance and Fidelity Bond coverage will provide very limited additional remedy or protection in the event of a claim/loss. Errors & Omissions policies often stipulate self-insured retentions far greater than the ascribed $150,000 deductible. Obtaining any worthwhile E&O coverage at a $150,000 retention would be either (1) impossible or (2) cost-prohibitive. Notwithstanding that, any likely claim/loss would likely be far beneath the self-insured retention, thereby rendering acquisition of this policy a useless risk transfer option. While the deductible limitations for Fidelity bond coverage typically are not as onerous as E&O, the same outcome is likely. Stipulating procurement of E&O insurance and/or Fidelity bond coverage will only add additional expense to Approved Insurers, without the expected benefit of risk transfer or protection to lenders.

F. Quality Control

14. What are the relative costs and benefits for Approved Insurers to implement the draft quality control requirements in the PMIERs?

If the GSEs' interpretations of the quality control (QC) requirements in the PMIERs require additional (or more frequent) audits or significant changes to Approved Insurers' policies and procedures, this could result in significant unnecessary expenses and increased operational uncertainty for Approved Insurers. This concern is heighted due to the ability of the GSEs to change the PMIERs, or their interpretation of the PMIERs, without notice or comment.

Radian recognizes that it is important to have timely feedback of QC results. Radian recommends that the PMIERs allow for a longer cycle time of 180 days (versus the 120 days proposed in the draft PMIERs) following the coverage effective date. A 180 day cycle time provides appropriate time and flexibility for: (1) activation of the insurance coverage, (2) a fill up period for sampling, (3) document request and document intake, (4) conducting the audit, (5) communicating preliminary findings to the lender, (6) allowing the lender to cure preliminary findings, (7) issuing the final report to the lender, and (8) aggregating the results for management reporting. A longer cycle time ensures that the audit requests cover a sufficient volume of loans for a given lender and limits the unnecessary burden of frequent low volume audit requests. Currently, a Seller may be using up to seven Approved Insurers, and frequent, low volume audit requests from multiple Approved Insurers may be burdensome and expensive.

The recommendation for pre-closing QC contained in the draft PMIERs is unclear, and could potentially result in unnecessary expense to Approved Insurers. Approved Insurers perform non-delegated underwriting, which is not part of the QC program, but could be considered pre-closing QC. We recommend that the references to pre-closing QC in Section 501 be removed.

15. Do the draft quality control standards present any unintended consequences?

The QC standards in the draft PMIERs require a review of declined applications for insurance. In certain instances, for example, in connection with an eligibility review using lender supplied data, an Approved Insurer may decline an application without reviewing the origination files from the lender. As a result, the PMIERs requirement with respect to declinations should be clarified to state that declinations must be part of the QC sample only when the origination file has been received and underwritten by the Approved Insurer.

Since the Approved Insurers have (and should have) the discretion to design and administer a QC program that best addresses the risks in their portfolio, the programs will vary across Approved Insurers. The GSEs should engage the Approved Insurers to understand these differences before comparing defect rates, enforcing corrective action, or requiring the Approved Insurer to enforce corrective action with the lender.

The PMIERs require a QC audit of early payment defaults (EPDs), yet EPD is undefined. It is unclear whether the Approved Insurer can determine the definition of EPD or use a Fannie Mae or Freddie Mac definition of EPD. The GSEs should clarify this in the final PMIERs.

G. Financial Requirements

Grids

16. What comments or suggestions are there related to the grid framework for performing loans in calculating the Financial Requirements?

We accept with the GSEs' movement toward a risk-based capital framework and the draft PMIERs' asset factor grid-based approach. However, based upon historical loan experience and our own and third-party actuarial analyses, we believe the capital requirements imposed by the draft PMIERs significantly exceed those required to withstand a severe stress scenario and a number of the asset factors are unjustifiably excessive and contrary to empirically supportable claim projections.

Specifically with regard to the grid framework for performing loans, the risk-based required asset factor grids are fundamentally flawed with respect to: (1) the lack of consideration for the seasoning of loans, (2) the factors assigned to always performing 2005-2008 vintage loans, and (3) the overly risk-adjusted results that lead to weaker credits effectively subsidizing stronger credits. In addition, as discussed in Section E below, the prospect of having changes made to the grids on a periodic basis creates a number of significant issues.

A. Modeling Framework needs to be reexamined, re-specified and revalidated

The modeling framework (i.e., the FHFA Mortgage Analytics Platform) from which the draft PMIERs grids are based has a number of issues that should be reexamined. These include issues relating to model methodology and specification. The methodology applies a multinomial logit regression to capture the competing risks of default and prepayment embedded in mortgages.

However, that specification is unduly restrictive in that both the prepayment and default models are forced to carry the same explanatory variables which may not provide the best fit of the data and may result in less accurate forecasting. A more flexible form should be used to model the discrete hazard events of default and prepayment. Moreover, the Mortgage Analytics Platform omits a number of key risk factors that are predictive of mortgage default. These include debt-to-income ratio, loan purpose (i.e., purchase, cash-out refinance, rate and term refinance), the number of borrowers, the number of housing units (e.g., one unit, single family residence), property type, and origination channel. The modeling should reflect all relevant factors that drive default outcomes and the impact of compensating factors needs to be incorporated into the grid framework. Tradeoffs between risk factors are commonly applied in mortgage underwriting and should be reflected in the PMIERs grids.

In addition, two of the most critical factors in the model and the draft PMIERs grids are credit score and original LTV. For these variables, the Mortgage Analytics Platform model segments FICO and LTV into a number of spline variables. While splines are an appropriate way to model inherent nonlinear effects, the knot points are inconsistent with common industry practice for modeling these relationships. The current knot points are set based on percentiles of FICO and original LTV derived from the entirety of the GSE data instead of using points that are in line with the segment of the market that MIs historically and currently insure (i.e., 80%+ LTV). For example, although the model contains multiple knot points, only one falls in the segment of the market that MIs insure today (at approximately 83%). LTVs associated with MI should be examined on the basis of standard levels associated with MI coverage, such as at 85%, 90% and 95%. Similar to the issue identified with LTV splines, the knot points for FICO (e.g. 678, 716, etc. for performing loans) also do not reflect standard industry underwriting thresholds (e.g., 620, 660,700, etc.). Moreover, the use of origination dummy variables in the Mortgage Analytics Platform model is a crude approximation of underwriting regime effects since it cannot isolate such effects.

Furthermore, as currently proposed, the risk-based required asset factors are overly risk-adjusted, which leads to weaker credits effectively subsidizing stronger credits as can be seen in more detail in the response to Question 17. This would, in turn, unjustifiably increase borrowing costs and reduce the availability of credit for the very prospective homebuyers currently at the edges of the existing credit box and any future expansion.

In light of these and other issues, we suggest that the models underlying the draft PMIERs grids be reexamined, re-specified and revalidated.

B. Draft capital requirements significantly exceed those required to withstand a severe stress scenario, including the Great Recession

Historical analysis demonstrates that the asset factors generated by the Mortgage Analytics Platform, and the overall capital framework/requirements in the draft PMIERs, should be re-specified. Radian performed analysis to examine the impact if the draft PMIERs and proposed asset factors had been in place at year-end 2009, a period in the middle of the recent severe stress environment when default rates on Radian-insured loans were near all-time highs. Applying the proposed factors in Table 3 and Table 5 to our Primary book of business at year-end 2009 would have required a minimum of approximately $7.8 billion in assets. Assuming a hypothetical run-

off scenario based on actual experience through June 2014 demonstrates that Radian's paid claims, net of premiums earned, on our book of business outstanding as of year-end 2009 would have totaled $2.6 billion, meaning that Radian would have been left with approximately $5.2 billion of remaining capital as of June 2014. However, applying Table 3 and Table 5 to the portion of the 2009 book remaining at June 2014 would now only require $3.3 billion of assets, which indicates that the requirements at year-end 2009 would have been $1.9 billion (in excess of 30%) higher than was necessary to support the book of business in a severe stress scenario. It is important to note that this result is based solely on the proposed factors and actual experience. It is also Radian's view that the $1.9 billion of excess capital is understated since our analyses indicate that future losses on this same population will ultimately result in less than the $3.3 billion generated by the proposed factors due to the lack of seasoning considerations in the proposed framework. In addition, Radian will continue to receive premium, which further supports the conclusion that the proposed factors are overstated.

C. Seasoning factors should be applied to all performing loan grids

The risk-based required asset factors in Tables 1-4 of the draft PMIERs are materially flawed insofar as they do not dynamically take into account the impact of loan seasoning. These asset factors should decrease over time as a loan ages or seasons, reflecting the decreasing risk of default as a loan continues to perform after origination. This is particularly important in the case of Table 3 of the draft PMIERs, which contain the factors to be applied to loans originated post-2008, because they determine the capital requirements for newly originated loans.

As pointed out in the "Overview of the Draft Revised Private Mortgage Insurer Eligibility Requirements" document provided with the draft PMIERs (the "Overview document"), the factors in the tables "... represent the aggregate remaining life of coverage claims as a percentage of aggregate risk-in-force (RIF) . . . ." While every loan is assigned a factor, the vast majority of loans will never result in a claim and the aggregate claims will be realized as a result of claims paid on a subset of loans. Through the application of Table 5 (Non-performing loans) in Exhibit A, the draft PMIERs propose that the asset factors for loans be increased as they transition into non-performing status, since the probability that they will result in a claim has increased (i.e., these non-performing loans are more likely to be part of the limited subset of loans resulting in claims). The PMIERs asset factors should also account for the fact that as loans continue to perform after origination, the probability that they will result in a claim decreases over time.

Loan vintages tend to follow typical default and claim development patterns or curves based upon time since origination, which reflects this decreasing probability of default. As pointed out in the FHFA's Countercyclical Capital Regime, which is referenced in the Overview document, "[a]s the loan ages and assuming it remains current, those expected lifetime losses will decline, ceteris paribus." In the case of prime loans, Radian's historically-based analyses suggest that the probability that a loan will result in a claim decreases by about 50 percent within approximately four years of origination.

Because the draft PMIERs propose to increase capital requirements for loans as they transition to non-performing status, failure to reduce capital requirements for performing loans as they season will result in increasing aggregate capital requirements for particular vintages as they age, ceteris paribus (i.e., aggregate capital requirements will gradually move higher than projected

cumulative claims). Not only is this contrary to what we presume is the proposed intent, this exacerbates the pro-cyclical impact of the draft PMIERs. In an economic downturn, capital requirements will begin to dramatically increase due to an increasing number of loans transitioning in and out of non-performing status. This means capital requirements for Approved Insurers would be increasing in an environment where the ability to raise capital may be impractical and uneconomical. We believe this compromises the resiliency of the financial system to economic and real estate downturns. It also increases the level of uncertainty for Approved Insurers with regard to capital requirements and capital management.

To account for the decreasing probability that performing loans will result in claims as they season, Radian proposes that a seasoning factor be applied to the risk-based required asset factor grids of the draft PMIERs based on claim development curves. The seasoning factor would decrease the asset factors for performing loans by a certain percentage on a regularly scheduled basis according to the time since origination. We would propose that the size of the seasoning factor and the timing of its application be determined based on empirically developed stress default and claim development scenarios.

As mentioned above, application of the seasoning factor is particularly important in the case of Table 3 of the draft PMIERs, which determine the capital requirements for newly originated loans. In accord with the draft PMIERs, Radian modeled the claim development curves using the CCAR Severely Adverse stress scenario. These curves were then used to derive an appropriate seasoning factor schedule to be applied to the draft PMIERs tables. Radian's proposed seasoning factor schedule to be applied to Table 3 is set forth below.

Years Since Loan Origination	Proposed Seasoning Factor
2	15%
4	30%
6	20%
8	15%
10	10%

D. Asset factors applied to 2005-2008 Always Performing loans are unjustifiably excessive and should be reduced

There is a material difference in the performance between loans that have never been reported as delinquent and loans that have. As set forth in the response to Question 18, Radian performance data on never-delinquent ("Always Performing") 2005 – 2008 loans suggests that, from a default perspective, these loans are performing similarly to HARP loans, in respect of which Table 4 of the draft PMIERs applies much lower risk-based asset factors. In contrast, these Always Performing loans are performing dramatically better than other 2005-2008 vintage loans. For example, our recent experience shows that the monthly new default rate for Always Performing 2005-2008 loans is about 30 bps as compared to 20 bps for HARP loans and 150 bps for other 2005-2008 loans. We also project that the majority of these new defaults will ultimately cure. As shown in the response to Question 18, monthly cure rates for newly delinquent 2005-2008 loans have been steadily increasing over the past 4 years, exceeding 25 percent in recent months.

Given the default and cure trends for Always Performing 2005-2008 loans, their significant seasoning, and the fact that the PMIERs applies a CCAR Baseline scenario to these loans, we fail to see a basis for applying the claim rates in Table 2 of the draft PMIERs to these loans. The CCAR Baseline scenario simply does not support these values, and there is no other supporting data or methodology set forth. In a moderately expanding economy (i.e., the CCAR Baseline), it is difficult to envision what trigger event could completely offset new default and cure trends that have shown steady improvement over the past several years in the case of loans that have experienced 6 to 9 years of seasoning. It also is important to recognize that in addition to the lack of an actuarial basis for these claim rates, the proposed claim rates disproportionately impact only those Approved Insurers companies with a legacy MI portfolio. In this case (and, in fact, any similar case) where there is a disproportionate impact on certain Approved Insurers resulting from the PMIERs, we believe the requirement driving such impact should be subject to heightened scrutiny to ensure that a compelling and justifiable basis exists for such requirement.

Always Performing 2005-2008 loans have continually performed with no 60 day delinquencies during one of the worst periods in the U.S. housing market and the economy in general, demonstrating tremendous resiliency and a proven ability to pay in stressed circumstances. They are also well past their default seasoning peaks of 3-5 years from loan origination.

Given the similarities in performance between Always Performing 2005-2008 loans and HARP loans, and the significant seasoning of these loans, we expect claim rates on them that are much closer to those suggested in the HARP grid than those suggested in the 2005-2008 grid. As a result, Radian proposes that the asset factors in Table 2 of the draft PMIERs not be applied to Always Performing 2005-2008 loans. Instead, the asset factors applied to these loans should closely parallel those applied to HARP loans in Table 4 of the draft PMIERs.

E. *Periodic changes to the grids create significant uncertainty and any changes must be shown to be absolutely necessary and well-governed*

Not only do the proposed initial asset factor grids contain a number of fundamental flaws, the fact that the grids may be updated periodically without any sense as to the process, methodology or analytical basis for updating them creates a considerable amount of uncertainty as to how capital requirements for Approved Insurers could change over time and what the primary drivers of those changes will be. This causes significant issues when it comes to capital planning, return estimates and pricing decisions, since the capital Approved Insurers have to hold against loans could change over time in a manner that neither they nor their investors can estimate. Approved Insurers price their insurance to achieve a certain risk-adjusted return with the understanding that loss and prepayment development will determine their ultimate realized returns. However, the draft PMIERs introduce changing levels of required capital as an additional factor that will cause their ultimate returns to vary from what they initially used to price their insurance. This creates a material amount of business uncertainty for Approved Insurers and their investors and customers. Because the biggest risk to any pricing structure or asset valuation is uncertainty, Approved Insurers will have to factor this into their pricing to minimize any adverse return impact caused by future increased capital requirements as a result of periodic changes to the asset factor grids. This, in turn, will exacerbate the risks to credit availability and housing affordability for first-time homebuyers and credit disadvantaged borrowers. To address these

concerns, we believe that incorporation of seasoning factors into the performing loans grids, which is discussed in detail above, would materially reduce the need to periodically update the grids. Radian also recommends that asset factor grid changes be governed by the FHFA to ensure that adequate consideration has been given not only to potential GSE exposure, but to the potential impacts to the overall housing market and economy.

F. Grids need to have increased granularity and be aligned with mortgage industry pricing structure

As proposed, the asset factors contained in Exhibit A of the draft PMIERs lack the necessary FICO granularity to ensure an accurate assessment of the expected performance as loans deviate away from the credit cohort midpoint. As an example, under the draft PMIERs a borrower with a 681 FICO and a borrower with a 740 FICO would receive the same asset factors, indicating that they would represent similar risk to an Approved Insurer. However, based on industry experience, Radian estimates the expected performance difference to be quite sizable as a 681 FICO borrower is 70% more likely to become 180 days delinquent than a 740 FICO borrower. Adhering to the proposed grid structure would ultimately lead to the mispricing of MI premiums and provide a perverse incentive for Approved Insurers to aggressively pursue concentrations at the lower end of the FICO buckets due to the favorable capital treatment they would receive. As a result, Radian proposes to expand the FICO bucket granularity contained in Exhibit A to 20 point increments, which would align the PMIERs' Exhibit A asset factors to the proposed GSE LLPA structure. In order to accurately capture the lower propensity of default for <=80% LTV originations, Radian also proposes to expand the LTV bucketing under the draft PMIERs to include specific asset factors for <=80% LTV originations. Ensuring an accurate assessment of risk and required capital for <=80% LTV transactions is a necessary step to facilitate a greater reliance by the mortgage industry on private capital.

In addition to the need for increased FICO/LTV granularity, the current asset factor FICO structure contained in Exhibit A is not aligned with current mortgage industry bucketing utilized in the pricing of various credit attributes. Not only do they differ from current MI rate cards, the proposed FICO bucketing is also out of sync with the LLPA structure employed by the GSEs (e.g., PMIERs ranges start at 621/681/741/781, which differs from the industry standard of 620/680/740/780). Once again this misalignment to industry standards would lead to the mispricing of premiums as it would prove very difficult for the Approved Insurer to alter its pricing structure without imposing an unnecessary burden on both the insurers and mortgage originators. Therefore, Radian proposes to align the FICO cohorts contained in Exhibit A with the proposed LLPA structure that was submitted by the FHFA in December of 2013.

17. What comments or suggestions are there related to including LTV and credit score as the primary factors in the grid framework for performing loans?

Radian is supportive of efforts to simplify the computation of capital requirements for Approved Insurers. However, an approach that attempts to quantify portfolio risk using only a couple of factors such as FICO and LTV will ignore other key drivers of risk and will not accurately reflect important risk tradeoffs such as compensating factors that are typically reflected in MI underwriting policy. Our assessment of the PMIERs grids based on internal models and historical experience is that the FICO categories applied in the grids are not sufficiently granular

and that, due to the lack of consideration for compensating factors, the contribution of LTV to default risk is excessive. As a result, the grids result in an overly punitive assignment of capital for higher LTVs over lower FICOs.

This can be seen from the tables below, which compare relative risk multiples established in the PMIERs to those developed by Radian utilizing historical GSE experience and controlling for other risk factors beyond FICO and LTV. The tables contain the FICO and LTV combinations that cover effectively all of Radian's new business and highlight that, although higher LTVs typically add to the overall risk, compensating factors can and do mitigate a large portion of this risk. In fact, there are a handful of cells where the increase in LTV is forecasted to present essentially no incremental risk due to factors other than FICO and LTV, such as reserve requirements, debt-to-income (DTI) limits, exclusion of certain products (e.g., investor loans), etc. The lack of consideration for compensating factors leads to overly risk-adjusted factors in the draft PMIERs, which will result in weaker credits effectively subsidizing stronger credits. We believe the modeling framework from which the PMIERs grids are based needs to be reexamined and re-specified to properly reflect the relative contribution of LTV and FICO to default risk and the grids updated in accordance with the re-specification.

Table 3: Relative Risk Multiples	621 - 680	681 - 740	741 - 780	781 - 850
LTV <= 85	5.4	3.2	1.8	1.0
85 < LTV <= 90	9.1	5.4	3.1	1.8
90 < LTV <= 95	12.1	7.3	4.3	2.6
95 < LTV <= 100	15.3	9.9	5.6	3.4

Radian: Relative Risk Multiples	621 - 680	681 - 740	741 - 780	781 - 850
LTV <= 85	5.0	2.6	1.4	1.0
85 < LTV <= 90	4.9	2.5	1.4	1.1
90 < LTV <= 95	5.5	3.0	1.8	1.3
95 < LTV <= 100	5.1	3.5	2.1	1.5

Note: The tables above are benchmarked relative to the lowest risk cell in the top right of each table.

18. What comments or suggestions are there related to the treatment of HARP loans in calculating the Financial Requirements?

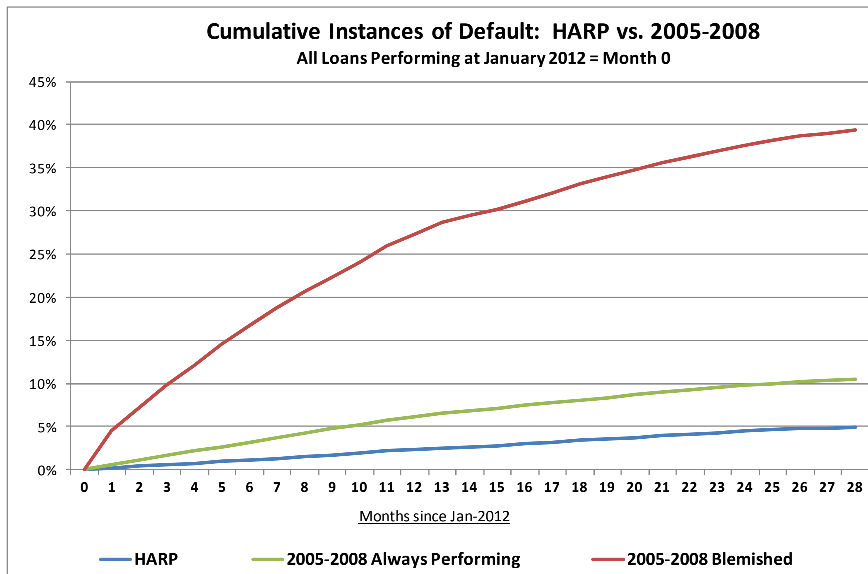
As discussed in Section D of the response to Question 16 and in more detail below, our analyses suggest that the grids applicable to HARP loans should also be applied to 2005-2008 Always Performing loans based on comparable historical performance between these groups.

The risk-based required asset factors applied to Always Performing 2005 – 2008 vintage, non-HARP loans, in Table 2 of the draft PMIERS are unjustifiably excessive in light of Radian's historical and current experience, significant credit burnout, default seasoning patterns and the macroeconomic scenario used to generate these factors (i.e., the CCAR Baseline scenario).

(Note that, “Always Performing” means the loan has never been 60 days delinquent.) Approximately 70% of Radian’s remaining performing 2005-2008 vintage loans are Always Performing with no history of 60 day delinquency throughout the 2009 deep stress period and also are well past their default seasoning peaks of 3-5 years from loan origination. In our view, these Always Performing loans have experienced significant credit burnout and shown tremendous resiliency during one of the worst periods in the U.S. housing market and the economy in general.

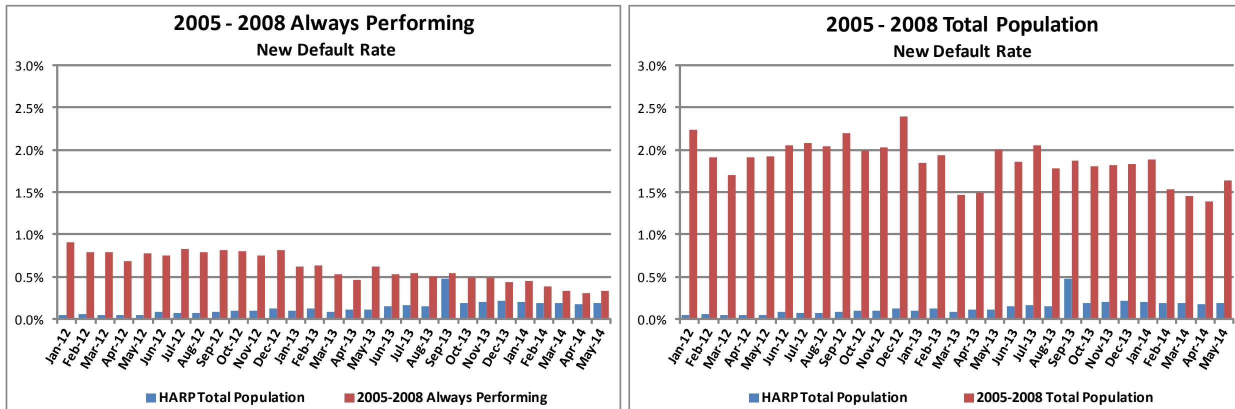
Radian performance data on Always Performing 2005 – 2008 loans suggests that, from a default perspective, these loans are performing similarly to HARP loans, in respect of which Table 4 of the draft PMIERS applies much lower risk-based asset factors. The graph below compares cumulative instances of default for 2005 – 2008 vintage performing loans and HARP performing loans since January 2012. 2005 – 2008 is split into two groups:
(1) Always Performing; and
(2) loans that have been 2 months delinquent at some point (“Blemished”).

All loans are performing at January 2012, which is the starting point designated as month 0 on the X-axis. As our historical data depicted on the graph show, by month 28 nearly 40% of the Blemished 2005 – 2008 loans had at least one trip into delinquency, compared to 10% for Always Performing 2005 – 2008 and 5% for HARP loans.

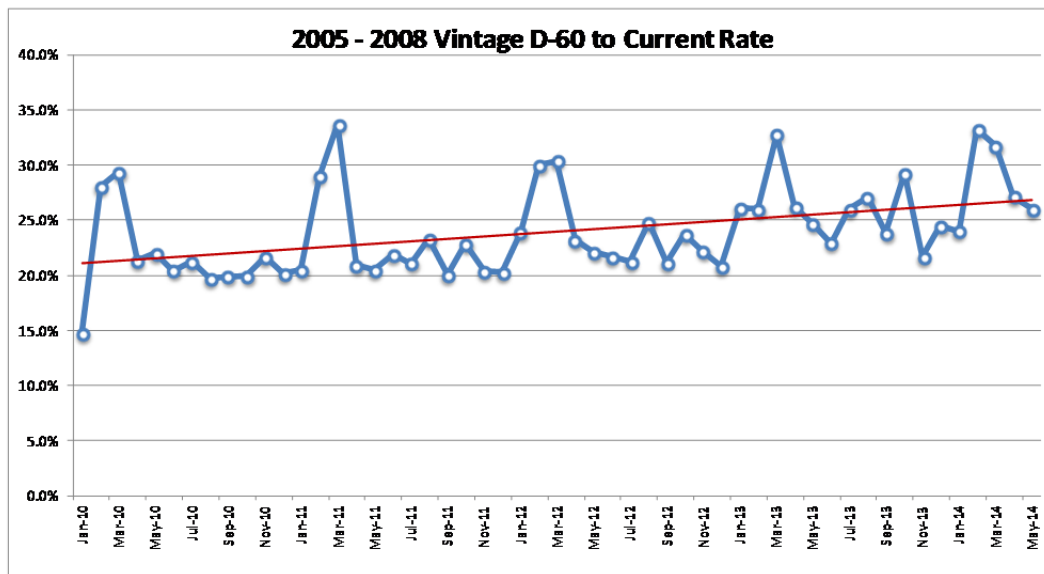


Monthly new default rates (Current to D-60) provide additional evidence that Always Performing 2005 – 2008 loans are similar to HARP loans. The graph below on the left contains the monthly new default rate for all HARP loans compared to Always Performing 2005 – 2008 non-HARP vintage loans. In recent months, the new default rate for HARP loans is about 20 bps compared to 30 bps for Always Performing 2005 – 2008 loans. An important trend to emphasize is the continued downward trend in the first-time new default rate for 2005 – 2008, reflecting the ongoing seasoning of those loans. We expect the majority of these loans to cure, an assumption that is supported by improving cure trends discussed in greater detail below.

The graph on the right contains the new default rate for all HARP loans compared to all 2005 – 2008 vintage loans, which includes both Always Performing and Blemished populations. The total new default rate is significantly higher for the 2005 – 2008 total population relative to HARP, which highlights the impact of including Blemished loans. The impact of seasoning is also evident by the gradual downward trend in new default rates.



When evaluating the default performance of 2005 – 2008 vintage loans, it is important to consider both new default rates and cure trends. The graph below contains the monthly D-60 to Current rate for 2005 – 2008 vintage loans, showing a monthly cure rate of about 25% in May 2014. The graph also shows a distinct upward cure trend over the past 4 years, with seasonal improvement typical for March and April. We expect a continuation of this trend, with 2005 – 2008 performing loans that enter default subsequently curing at increasing rates.



With the default and cure trends shown above in mind, and the significant seasoning of these loans, it is difficult to see how, under a CCAR Baseline scenario (i.e., moderately expanding economy), performance could reasonably be expected to deteriorate to the extent necessary to reach the claim rates implied by Table 2 of the draft PMIERs. We fail to see what the trigger

event would be that could completely offset new default and cure trends that have shown steady improvement over the past several years in the case of loans that have experienced 6 to 9 years of seasoning.

To account for the performance differential between 2005 – 2008 Always Performing and Blemished loans, Radian proposes that Table 2 of the draft PMIERs be split into two grids:

(1) Blemished 2005 – 2008 vintage, non-HARP loans should receive risk-based asset factors that reflect the unique risk profile of this population, with an appropriate seasoning factor that would decrease the asset factors by a certain percentage on a regularly scheduled basis according to the time since origination.

(2) Always Performing 2005-2008 vintage, non-HARP loans should receive risk-based asset factors that reflect the superior performance of this population, with an appropriate seasoning factor as described above. Given the similarities in performance between Always Performing 2005-2008 loans and HARP loans, and the significant seasoning of these loans, we expect claim rates on them that are much closer to those suggested in the HARP grid than those suggested in the 2005-2008 grid. As a result, Radian proposes that the asset factors in Table 2 of the draft PMIERs not be applied to Always Performing 2005-2008 loans. Instead, the asset factors applied to these loans should closely parallel those applied to HARP loans in Table 4 of the draft PMIERs.

19. What comments or suggestions are there related to the treatment for non-performing loans in calculating the Financial Requirements?

The asset factors applied to non-performing loans are overly punitive and at odds with our empirically-derived claim projections, historical experience, actuarial analyses and the macroeconomic scenario used to generate these factors (i.e., the CCAR Baseline scenario).

Non-performing loan capital requirements should be aligned with historical experience and trends, empirically-derived claim projections and actuarial analyses. Accordingly, asset factor Table 5 (Non-performing Insured Loans) of the draft PMIERs should be replaced with an alternative transition to claim rate table that is properly based on historical experience and also provides additional granularity within the delinquency statuses.

The proposed asset factors in the non-performing loans grid are significantly higher than historical experience. If properly based on historical experience, the assumed transition to claim rates included in Table 5 should be dramatically lower than what is currently proposed. Our historical baseline experience is that approximately 80 percent of loans that enter non-performing status ultimately cure and do not result in claims, as shown in the graph at the bottom of the response to this question 19.

The table below compares the claims rates proposed in Table 5 to transition rates experienced by Radian on Primary prime loans during 2003 to 2004, a timeframe that could be considered a pre-crisis normalized credit environment and 2007 to 2008, a timeframe that featured severe macroeconomic stresses and very high claim rates. The table below clearly illustrates that the

draft PMIERs claim rate assumptions and capital requirements for non-performing loans are significantly higher than what is warranted based on historical claim transition experience. While we reference both normalized and stressed environment claim rates below, our understanding is that the CCAR Baseline scenario, which assumes a moderately expanding economy, was used to generate the asset factors for non-performing loans. This simply does not seem possible given the high rates established in Table 5, in particular when compared to Radian's historical rates. As can be seen below, the Table 5 rates, which are supposedly based on a CCAR Baseline scenario, exceed those experienced by Radian at the height of the most recent financial crisis.

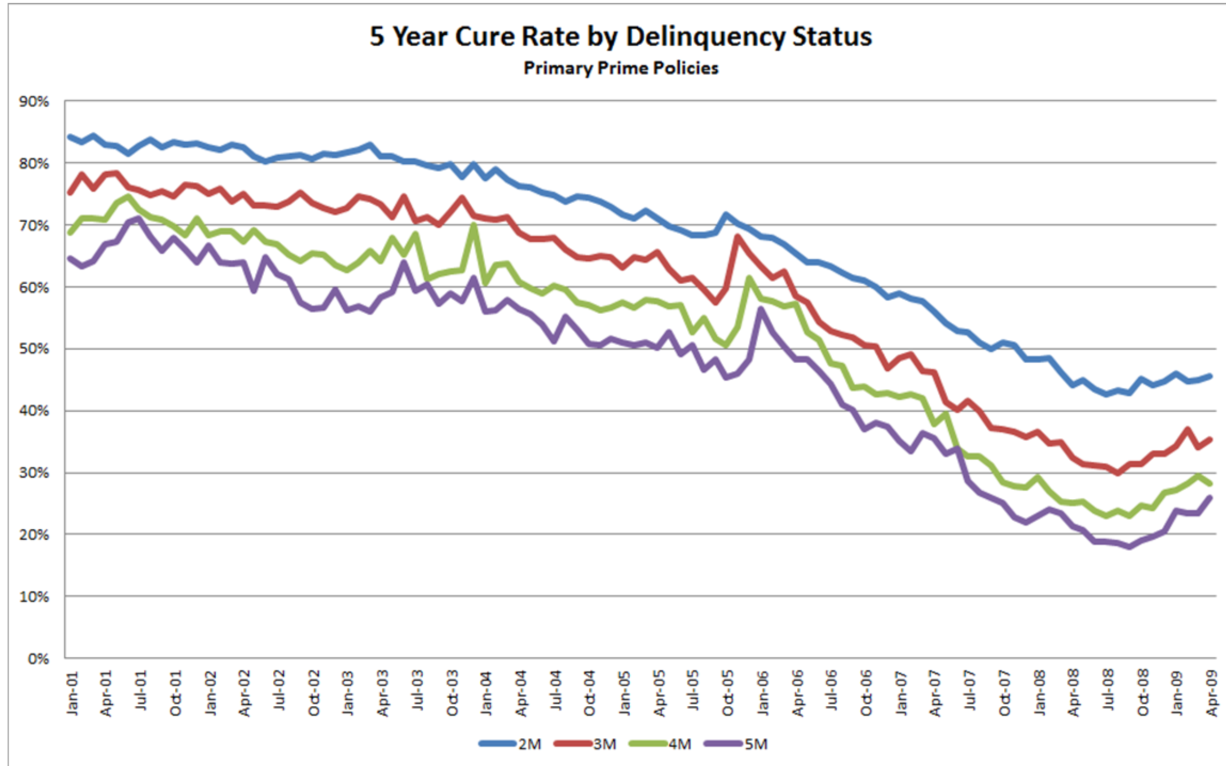
Months Delinquent	Table 5 Claim Rates	2003 - 2004 Gross Rates	2007 - 2008 Gross Rates
2 - 3	55%	19%	43%
4 - 5	69%	33%	64%
6 - 11	78%	46%	75%
12+	85%	46%	74%

The table above clearly illustrates that the draft PMIERs claim rate assumptions and capital requirements for non-performing loans are significantly higher than what is warranted based on historical claim transition experience, particularly in light of the intent to apply a CCAR Baseline scenario. In addition, the proposed asset factors in the non-performing loan grid are significantly higher than actuarially-based projections that have previously been shared with the GSE's.

Furthermore, the draft PMIERs imply a severity factor of 106% (applied to Pending Claims in Table 5), which is higher than what has been historically experienced by Radian. For instance, relative to risk-in-force, severities on Radian's Primary paid claims from 2001-2006 averaged 95%. It should also be noted that historically about 1% to 2% of pending claims are withdrawn by the claim submitter prior to reaching final disposition.

In addition to overstating expected claim rates on non-performing loans, Table 5 of the draft PMIERs does not properly account for the significant performance differentials among various stages of delinquency up to 6 months delinquent.

To better align non-performing loan capital requirements with historical trends and actuarial analyses, Radian proposes that Table 5 of the draft PMIERs be replaced with an alternative transition to claim rate table featuring more granularity within months-delinquent groups. Historical delinquency cure rates and transition to claim rates show significant performance differentials among various stages of delinquency up to 6 months delinquent. The differential in cure rates is demonstrated in the following graph, which shows the 5 year cure rate by delinquency status for loans that are less than 6 months delinquent:



In order to properly capture the granularity of this performance differential, Radian believes it is important to increase the number of delinquency groups for loans that are less than 6 months delinquent. As shown in the "Radian Proposal" table below, Radian proposes separating loans that are less than 6 months past due into four groups (i.e., 2, 3, 4, and 5 months delinquent) and, because there is less performance variation in loans that are 6 months or more delinquent, we support using the 6 – 11 and 12+ delinquency groups contained within Table 5.

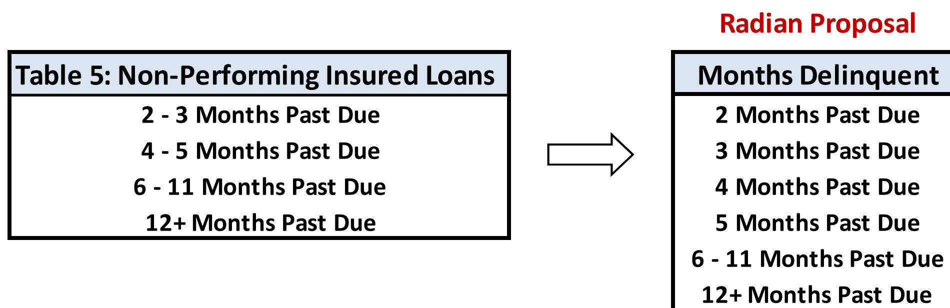


Table 5: Non-Performing Insured Loans
2 - 3 Months Past Due
4 - 5 Months Past Due
6 - 11 Months Past Due
12+ Months Past Due

Radian Proposal

Months Delinquent
2 Months Past Due
3 Months Past Due
4 Months Past Due
5 Months Past Due
6 - 11 Months Past Due
12+ Months Past Due

Prior to foreclosure moratoriums that lengthened claim submission timelines, the 2 months past due delinquency group typically contained the largest number of delinquent loans and therefore should be split out from delinquent loans that are 3 months past due, given the difference in expected transition to claim rates between these two delinquency statuses. This difference in both cure and transition to claims rates continues to hold as defaulted loans transition between delinquency statuses up to 6 months past due, which supports the case for separating these delinquency groups as well. Historical cure and transition to claim rates for loans greater than 12

months past due indicate less variance as loans transition between delinquency groups, which support the case for combining these delinquency groups. Radian's proposed factors are shown below and are based on net transition rates experienced by Radian on Primary prime loans during 2003 to 2004, a timeframe that could be considered a pre-crisis normalized credit environment, which is consistent with a CCAR Baseline scenario.

Months Delinquent	Radian Proposed Factor
2	16%
3	23%
4	29%
5	34%
6 - 11	44%
12+	45%

20. Is the segregation of books of business by vintages appropriate?

The vintage segregation applied in the draft PMIERs is empirically inconsistent with historical experience as detailed in the responses to Questions 16, 18 and 19. The draft PMIERs are silent as to any further segmentation by vintage that might occur in future years. Assuming seasoning factors are incorporated as Radian suggests in the response to Questions 16 and 22, Radian recommends that the grids not establish additional vintage segments beyond those already established for future origination years.

21. How often should the grids be updated?

Frequent updates to the required asset grids would make capital planning extremely difficult, which is especially troublesome given the duration profile of the mortgage insurance business. Once the grids have incorporated seasoning, updates should not be required for several years and should only be contemplated if absolutely necessary as a result of a material change in performance. In addition, any updates would require ample lead time for comment and implementation by Approved Insurers. This approach would be consistent with other regulatory capital frameworks for residential mortgages such as Basel III. Frequent updating would impose considerable operational burdens, introduce unnecessary confusion and potentially create volatility in the market. Changes to asset factor grids contained in Exhibit A could result in Approved Insurers being required to raise additional capital, which given the pro-cyclical nature of the draft PMIERs could prove very difficult, time consuming and unnecessarily costly. In addition, potential premium changes as a result of asset factor updates would require adequate lead time to secure the necessary state regulatory approvals and provide proper notification to mortgage originators and borrowers. As a result, Radian recommends that the required asset grids should be updated only if absolutely necessary, and with enough lead time to help Approved Insurers and the mortgage marketplace to prepare well in advance of any changes. Radian also recommends that required asset factor grid changes be governed by the FHFA to ensure that adequate consideration has been given not only to potential GSE exposure, but to the potential impacts to the overall housing market and economy.

22. What comments or suggestions are there related to employing a remaining life of coverage loss horizon in calculating the grids?

A. The risk-based required asset factor grids for performing loans are materially flawed because they fail to take into account loan seasoning

The risk-based required asset factors in Tables 1-4 of the draft PMIERs are materially flawed insofar as they do not dynamically take into account the impact of loan seasoning. These asset factors should decrease over time as a loan ages or seasons, reflecting the decreasing risk of default as a loan continues to perform after origination. This is particularly important in the case of Tables 3 and 3A of the draft PMIERs, which capture the factors to be applied to loans originated post-2008, because they determine the capital requirements for newly originated loans.

B. Empirical data and historical experience support inclusion of a loan seasoning factor

As pointed out in the Overview document, each factor in the tables "… represent the aggregate remaining life of coverage claims as a percentage of aggregate RIF…" While every loan is assigned a factor, the vast majority of loans will never result in a claim and the aggregate claims comprise claims paid on only a subset of loans.. Through the application of Table 5 (Non-performing loans) in Exhibit A, the draft PMIERs propose that the asset factors for loans be increased as they transition into non-performing status, since the probability that they will result in a claim has increased (i.e., these non-performing loans are more likely to be part of the limited subset of loans resulting in claims). The PMIERs asset factors should also account for the fact that as loans continue to perform after origination, the probability that they will result in a claim decreases over time.

Loan vintages tend to follow typical default and claim development patterns or curves based upon time since origination, which reflects this decreasing probability of default. As pointed out in the FHFA's Countercyclical Capital Regime, which is referenced in the Overview document, "[a]s the loan ages and assuming it remains current, those expected lifetime losses will decline, ceteris paribus." In the case of prime loans, Radian's historically-based analyses suggest that the probability that a loan will result in a claim decreases by about 50 percent within approximately four years of origination.

C. Failure to take seasoning into account exacerbates the existing pro-cyclicality of the PMIERs and will severely compromise the system in periods of significant stress.

Because the draft PMIERs propose to increase capital requirements for loans as they transition to non-performing status, failure to reduce capital requirements for performing loans as they season will result in increasing aggregate capital requirements for particular vintages as they age, ceteris paribus (i.e., aggregate capital requirements will gradually move higher than projected cumulative claims). Not only is this contrary to what we presume is the proposed intent, this exacerbates the pro-cyclical impact of the draft PMIERs. In an economic downturn, capital requirements will begin to dramatically increase due to an increasing number of loans transitioning in and out of non-performing status. This means capital requirements for Approved Insurers would be increasing in an environment where the ability to raise capital may be

impractical and uneconomical. We believe this compromises the resiliency of the financial system to economic and real estate downturns. It also increases the level of uncertainty for Approved Insurers with regard to capital requirements and capital management.

D. The solution to the problem is to include seasoning factors in the risk-based required asset factor grids

To account for the decreasing probability that performing loans will result in claims as they season, Radian proposes that a seasoning factor be applied to the risk-based required asset factor grids of the draft PMIERs. Radian's seasoning factor proposal is set forth in Section C of the response to Question 16.

E. UPR and future premiums should be counted as Available Assets if the PMIERs employ a remaining life of coverage loss horizon

There is a clear imbalance and inconsistency in employing a remaining life of coverage loss horizon while giving no consideration for any portion of future earned premiums that can be used to offset losses. As discussed in Section B of the response to Question 16, the capital requirements in the draft PMIERs significantly exceed those required to withstand a severe stress scenario due in large part to the failure to give any consideration to future earnings, which will be available to pay claims. Given the historical evidence from the recent stress period, it is Radian's position that unearned premium reserves (UPR) and a portion of future premiums, calculated based on a stress path, should be counted as Available Assets under the PMIERs framework. (Please see the response to Questions 30-34 for further details regarding the draft PMIERs' treatment of UPR and future premiums.)

23. What comments or suggestions are there related to the use of multipliers for certain loans with certain high risk features?

In setting these multipliers, it is important to recognize the potential effects of stress compression, which may reduce the magnitudes of specific factors under stress. Under a stress event, the effect of individual risk factors compresses across a risk factor such as FICO compared to under normal market conditions. For example, the difference in relative risk of a 620 FICO borrower versus a 720 FICO borrower narrows under a stress event compared to normal market conditions. To the extent risk multipliers are leveraged at all, they must be set in a way then as to not overly compound effects. Risk multipliers generated from standard statistical models such as those described in the FHFA's white paper on the Mortgage Analytics Platform may in fact overestimate the contributions of individual factors when aggregating multipliers (odds ratios) across risk factors. As a result, Radian recommends the calculation and usage of the log odds for risk factors.

In addition to the need to recognize the stress compression that occurs when risk multipliers are used, the proposed multipliers in Table 3A are overly punitive, too binary, and not necessarily supported by empirical evidence. For example, Table 3A requires a doubling of capital for affected loans with DTI levels in excess of 43% yet debt-to-income is not even a factor in the FHFA Mortgage Analytics Platform. No historical data has been provided, nor does Radian believe the data exists, to support a doubling of required capital at 43% DTI. Although the vast

majority of the market is currently exempted from Table 3A given the large presence of the GSEs in today's market, the proposed multipliers would impede the Approved Insurers from adapting to an ever changing market if, and/or when, the GSEs' presence in the market declines.

Under the draft PMIERs, the current exemption criteria for applicability of Table 3A lacks clearly defined eligibility requirements. As proposed, the exemption criteria (e.g. eligible for sale to Fannie Mae, Freddie Mac, or any of the Federal Home Loan Banks) rely solely on information, such as GSE seller variances, that is not necessarily known by the Approved Insurer at time of application. Implementing the criteria as proposed would prove especially problematic and burdensome for both originators and Approved Insurers.

To the extent that the final PMIERs end up containing some version of risk multipliers contained in Table 3A, prescriptive guidance should be given as to how the presence of a certain risk feature is determined. As an example, as proposed, Table 3A contains a multiplier for loans "Not Underwritten with Full Documentation"; however there is no guidance provided as to how "Full Documentation" is being determined or what standards are being applied. In order to ensure proper capital calculation, planning, and evaluation, full transparency should be provided to the Approved Insurers so that uniform standards are applied throughout the industry.

24. **It is common underwriting practice to consider additional factors that help reduce or offset risks associated with higher DTIs (often described as compensating factors). Should the Enterprises take compensating factors into consideration when determining risk multipliers as described in Exhibit A, table 3a? How should compensating factors be incorporated into table 3a?**

Compensating factors should be taken into account when developing risk multipliers for the PMIERs tables. In fact, the GSEs use compensating factors for loans in their own automated underwriting system. Applying an approach that fails to recognize empirically supportable offsets to certain risk attributes would vastly overestimate the risk in an insured book of business. Underwriting decisions are not typically based on assessments of one or two risk attributes but by examining the totality of a loan's credit risk potential along multiple risk attributes relating to the collateral quality, credit quality and capacity of the borrower, among other things. In developing a grid-based approach to capital requirements, the draft PMIERs overestimate risk and therefore the capital requirements, as detailed in the responses to Questions 16 and 17. Other regulatory capital frameworks recognize this issue and have utilized multivariate credit models to estimate the probability of default and loss given default in determining capital levels for commercial banks. While a grid-based approach may be operationally easier to implement than a model-based approach, it necessitates the consideration of compensating factors.

25. **An alternative would be to have several DTI risk multipliers, for example, 43%, 45%, 47% and greater than 50%. What are the merits or drawbacks of this approach?**

DTI, while it remains a statistically significant risk attribute in mortgage default models, suffers from data quality issues. Loans with less than full documentation provided have been shown to have DTI integrity issues. Even with fully documented loans, clear definitions of what

constitutes borrower income can introduce measurement errors that are transmitted to estimated parameters and eventually grid factors. This issue is compounded by the risks originators currently face when documenting income, which tends to lead to documenting as little income as possible to qualify a loan so as to not risk repurchase due to potentially overstated income. Hence, reliance on DTI as a variable of interest in the PMIERs grids would be insufficient at best and potentially misleading at worst. Moreover, segmenting DTIs by the specific thresholds identified in the question above would further exacerbate the impact of the failure of the PMIERs to take compensating factors into account. The categories identified would presumably layer on multipliers in addition to those for other risk attributes such as FICO and LTV, but not provide appropriate offsets for DTIs that are below those DTI thresholds.

Macroeconomic Scenarios

26. What comments or suggestions are there related to using the house price, interest rate and unemployment rate projections from the CCAR Baseline scenario for calculating the grids for Pre-2009 and delinquent policies?

Because pre-2009 and the vast majority of delinquent policies have experienced considerable seasoning thus far and been exposed to the stress from the financial crisis of 2008-2009 and its aftermath, application of a baseline scenario reflecting expected market conditions is appropriate. However, we take issue with the excessive treatment of 2005-2008 always performing loans as well as delinquent loans. The risk-based required asset factors applied to these groups are overly punitive and we believe are inconsistent with historical and current experience, actuarial analysis, and the macroeconomic scenario used to generate these factors (i.e., the CCAR Baseline scenario). The punitive nature of these factors is illustrated in our responses to question 18 (as it relates to 2005-2008 vintages) and Question 19 (as it relates to delinquent loans).

27. What comments or suggestions are there related to using the house price, interest rate and unemployment rate projections from the CCAR Severely Adverse scenario for calculating the grids for non-HARP Post-2008 policies?

Radian does not take issue with the use of a CCAR Severely Adverse scenario for non-HARP post-2008 loans. It is, however, recommended that no further vintage segmentation be made to post-2008 loans and, instead, a seasoning factor be incorporated. In addition, as detailed in the responses to Questions 16 and 17, the modeling framework underlying the draft PMIERs grids should be reexamined, re-specified and revalidated.

28. What comments or suggestions are there related to using the house price, interest rate and unemployment rate projections from the CCAR Baseline scenario for calculating the grid values for loans refinanced through HARP?

Because loans refinanced through HARP have experienced considerable seasoning thus far and been exposed to the stress from the financial crisis of 2008-2009 and its aftermath, application of a baseline scenario reflecting expected market conditions is appropriate.

Available Assets

29. What is the appropriate frequency for an Approved Insurer's senior management team to certify compliance with the available and minimum required asset provisions of Section 704?

We suggest that the certifications to the GSEs are completed annually as to general compliance with the available and minimum required asset provisions. These certifications should allow the Approved Insurer to limit the certifications only for senior financial officers as to knowledge (which would be expressly defined) and materiality.

With respect to knowledge, we would define it as follows: "knowledge" or "know" with respect to the Approved Insurer means the actual knowledge of the senior financial officers of the Approved Insurer and the knowledge that such persons would reasonably be expected to obtain if the Approved Insurer had exercised commercially reasonable due diligence. An Approved Insurer is deemed to exercise commercially reasonable due diligence if it maintains reasonable routines for communicating significant findings of such material non-compliance to such senior financial officers and there is reasonable compliance with such routine.

With respect to materiality, we suggest that the certification be as follows: the Approved Insurer maintains policies, procedures and internal controls (collectively, the "control system") that are designed to provide reasonable assurance that the Approved Insurer complies in all material respects with the applicable obligations specified in Section 704, taken as a whole; provided, that it is recognized that such control system, because of its inherent limitations and irrespective of how well it is designed and operated, can only provide reasonable assurance regarding compliance and cannot guarantee that it will succeed in its stated objectives.

30. What suggested changes are there to the categories either included or excluded from the definition of Available Assets?

Available Assets are made up primarily of liquid assets available to pay claims. The exclusion of non-refundable UPR makes no sense when considering that UPR fits squarely within the Available Asset construct. These are premiums that have been received and are in the investment portfolio, are non-refundable and can be used to pay claims. The outright exclusion of this item within the spirit of Available Assets has no logical explanation.
The proposed financial requirements of the draft PMIERs incorporate a claims paying resources concept, whereby only assets that are liquid and readily available to pay claims are counted towards Available Assets. Yet, the draft PMIERs calculation of Available Assets excludes prepaid nonrefundable UPR, even though they are both liquid and immediately available. Nonrefundable UPR are today, and in the future will remain, available for the payment of claims. Radian believes it is inconsistent to exclude non-refundable UPR from a definition of Available Assets that is based on readily available liquidity. Radian's nonrefundable UPR would have represented 15 percent of its Available Assets as of June 30, 2014, if included. This is clearly a material amount of assets at stake.

The GSEs have cited the exclusion of UPR from Approved Insurers' claims paying resources in certain state receivership situations as the basis for excluding UPR from the definition of

Available Assets. To address statutory concerns of this nature, instead of excluding UPR, a very material resource that otherwise satisfies the GSEs' definition of Available Assets, we believe the GSEs' concern can be easily addressed by providing that UPR will be included only so long as the Approved Insurer is in compliance with state capital requirements, or alternatively, within a pre-defined margin of compliance.

31. What comments or suggestions are there related to the proposed treatment of premium income in Available Assets?

The outright exclusion of UPR from the calculation of Available Assets has no logical explanation. Please see the response to Question 30.

With regard to future premiums, we believe it is sensible to include a reasonable level of future premiums in Available Assets, as the receipt of such premiums in the near term is virtually assured. With respect to loans other than pre-2009 loans, there is a clear imbalance and inconsistency in employing a remaining life of coverage loss horizon while giving no consideration for any portion of future earned premiums that can be used to offset losses. As discussed in Section B of the response to Question 16, the capital requirements in the draft PMIERs significantly exceed those required to withstand a severe stress scenario due in large part to the failure to give any consideration to future earnings, which will be available to pay claims. Given the historical evidence from the recent stress period, it is Radian's position that UPR and a portion of future premiums, calculated based on a stress path, should be counted as Available Assets under the PMIERs framework. There is a distinct lack of matching concept within the draft PMIERs. Loans that are written today, which are highly unlikely to go into default or claim until at least 2 to 3 years after being written, are charged a full level of capital from Day One against projected claims for the entire life of insurance coverage. Some level of future premiums on such business will undoubtedly be available to pay claims and should therefore be included in Available Assets.

With respect to pre-2009 loans, the draft PMIERs includes a premium credit for 210% of the past year's earned premiums. This proposed credit is too low based on historical experience and future projections. Accordingly, for future premiums, a premium credit of 300% should be applied to an Approved Insurer's entire book of business as opposed to the currently proposed 210% on the pre-2009 vintages. There is substantial precedent to support this concept within the banking regulations and rating agency stress modeling. Not including future premiums adds an unnecessary cushion to the already stringent capital requirements of the draft PMIERs.

Giving credit for future premiums is consistent with the concept of readily available assets, given that the default and claim process on current loans will play out over some time in which significant premiums will be received on the vast majority of the loans that do not default. Currently, the draft PMIERs require capital to be held against future losses on all vintages on day one, but give no credit for the receipt of future premiums on 2009 and later vintages, including the high quality business being written today. We propose that the future premium credit be applied to an Approved Insurer's entire book of business as opposed to just the pre-2009 book of business since the premiums on the new business are at least as likely to be received as the premiums from the pre-2009 books.

In addition to the future premium credit being based on the entire book of business, a rate of 300% should be applied instead of the proposed 210%. Radian performed analysis to examine the impact if the draft PMIERs had been in place at year-end 2009, a period in the middle of the recent severe stress environment when default rates on Radian-insured loans were near all-time highs. A hypothetical runoff scenario based on this stressed period shows definitively that a premium credit in excess of 300% would have been necessary to accurately capture premiums earned through the second quarter of 2014. Interest rates during this stressed period were at historically low levels providing a significant refinance incentive yet we still observed a meaningful amount of premium revenue that would not be counted under the draft PMIERs framework. Given that we received premiums in excess of this amount during and following one of the most severe housing and economic downturns in history, we believe 300% represents an appropriately conservative premium credit. Accordingly, for future premiums, a credit of 300% should be applied to an Approved Insurer's entire book of business as opposed to the currently proposed 210% on the pre-2009 vintages.

32. Should the proposed treatment of premium income in Available Assets be aligned with the exclusion of premiums that currently occurs as part of state regulatory calculations?

No. The financial requirements of the draft PMIERs differ significantly from the statutory accounting based requirements of the states. For example, there are many valid statutory assets that are completely excluded from Available Assets in the draft PMIERs (See the response to Question 49 regarding Radian Asset). We understand that the financial requirements of the PMIERs are intended to include only those assets that are readily available to pay claims. However, a substantial portion of the most ready available assets (UPR) have been excluded. We believe that capital standards should either be based fully on the regulatory accounting standards or a separate, liquid asset test that fully incorporates all forms of liquid assets. The draft PMIERs are drafted using a liquidity standard that should be consistently applied as opposed to the current proposed form which seems arbitrary and inconsistent.

33. Should premium income for the Post-2009 vintages be included in the calculation of Available Assets, and if so, should the inclusion of this premium income be limited to the transition period, or should it extend beyond the transition period? What would be an appropriate phase- out and/or haircut for premium income credit given during the transition period?

Yes. We believe that in order to match the capital requirements (which impose significant levels of capital on Day One against projected future claims for the entire life of insurance coverage), some component of future premiums should be included in Available Assets. As further discussed in the response to Question 31, we believe a conservative level of 300% of the trailing 12 month premium would be appropriate given that this level of premiums (and probably more) is highly likely to be received over the time period that defaults in the MI portfolio will occur. This would also be consistent with many other regulatory capital requirements which allow some level of future revenues to be included to properly match the loss expectations.

34. Should unearned premium reserves (UPR) be included in the calculation of Available Assets? Should there be different treatment of refundable versus non-refundable premium?

Yes. See the response to Question 30. Refundable UPR should be excluded and non-refundable UPR should be included for the obvious reason that non-refundable UPR are and will continue to be available to pay claims. As discussed above, there is no logical basis to exclude non-refundable UPR under the liquidity-based asset test proposed in the draft PMIERs.

<u>Alternative Approaches</u>

35. Should an alternative approach to determining Minimum Required Assets be considered in the future? If so, please describe the approach.

We believe that with the appropriate changes to the current proposal as we have detailed in our comment letter and our responses herein, the Minimum Required Asset concept works well to determine an Approved Insurer's capital adequacy. Implementation of an alternative approach in the future would create the same issues that result from periodic changes to the grids, which is discussed in Section E of the response to Question 16.

<u>Limitations Triggered by a Minimum Required Assets Shortfall</u>

36. What comments or suggestions are there related to the limitations triggered by an Available Assets shortfall to the Minimum Required Assets Amount described in Section 706 if they were expanded to include:

a. Paying dividends, making any payments, or pledging or transfer asset(s) to any affiliate or investor; and

b. Assuming any obligations or liabilities other than those arising from mortgage guaranty insurance policies.

We believe that imposing limitations such as items (a) and (b) would infringe on the purview of state regulators. The GSEs have repeatedly stated that they are not seeking to usurp state regulatory authority. As a result, we suggest the GSEs consider other remediation actions in the event of a shortfall, including importantly, the Approved Insurer's remediation program, which very well may include, among other items, voluntary compliance with (a) and (b) above.

<u>Risk Sharing and Reinsurance</u>

37. Should risk sharing or reinsurance transactions that do not receive full credit for the risk transferred under GAAP or SAP be permitted, and, if so, what limitations should there be on such transactions?

Yes. The draft PMIERs financial requirements have a structure that is different from SAP or GAAP accounting. In general, risk transfer requirements for GAAP and SAP accounting require that there

be a reasonable possibility that the reinsurer could incur a loss under the terms of the reinsurance agreement. While not identified as a bright-line per se, this generally has been viewed as the reinsurer having at least a 10% probability of a 10% loss (i.e., a 1 percent reinsurer deficit). Because the draft PMIERs financial requirements contain risk-based asset factors that, as explained in more detail elsewhere in these responses, are significantly in excess of stress levels of losses, and no credit is provided for cash held related to UPR, if we enter into reinsurance agreements with third parties that cover the more risk remote portions of the draft PMIERs required assets, we are fairly certain that an actuarial analysis done to support risk transfer would not demonstrate that the reinsurer has a reasonable possibility of a reasonable loss. As a result, transfer accounting would not be permitted under GAAP or SAP.

However, notwithstanding the accounting treatment, in the very unlikely event that there was a loss that would be ceded under the reinsurance contract, the reinsurer would be required to pay the ceded loss and this would represent economic protection to the Approved Insurer, and thus the GSEs. Therefore, obtaining reinsurance in acceptable form from an acceptable counterparty should clearly receive full credit, regardless of the accounting treatment. Any haircut in credit for this economic reinsurance would be nonsensical and contrary to the PMIERs framework.

38. What would be the impact of the draft Financial Requirements, if any, on Approved Insurers who are considering writing pool level insurance on pools with LTVs below 85 percent?

This question focuses on pool insurance, but does not truly capture the issue at hand. The underlying issue is that the proposed Financial Requirements are based on the historical footprint of the MI industry writing primary policies at standard coverage levels. To the extent this changes at all in the future, the proposed factors will not adequately reflect the true risk of the policies being written. By overstating the risk, Approved Insurers will be disincented from writing pool level insurance or any other types of insurance beyond primary policies at standard coverage levels.

One aspect of this issue relates to severity. The assumed severity relative to risk is 106% (assigned to Pending Claims in Table 5 of the draft PMIERs), which is higher than historically observed, but is presumably intended to capture the historical relationship between risk-in-force (RIF) and claim payments on primary policies with standard coverage. This relationship becomes increasingly misstated as the coverage level changes. For example, this requirement is nonsensical for pool insurance (for which coverage levels are 100% at the loan level) where even stress severities have never averaged remotely close to the currently proposed level. However, this issue could affect primary policies, as well. If the Approved Insurers moved to writing deeper coverage levels on primary policies, whether it be covering loans with original LTVs below 80% or applying larger coverage amounts to higher LTV loans, the draft PMIERs would not capture the fact that average severities would be lower than historical relationships does suggest. Radian proposes that the Financial Requirements address this issue directly by identifying an appropriate severity level and requiring the Approved Insurers to hold capital in respect of the lesser of the coverage level or the identified severity amount. For example, if 50% were to be used as the appropriate severity level, a policy with primary coverage of 25% would assume 25% (i.e., 100% of the loan-level RIF) whereas a policy with pool coverage of 100 percent would assume 50% (i.e., 50% of the loan-level RIF).

In addition to severity, a second aspect of the issue relates to probability of default. The probability of default decreases as LTV decreases; therefore, to the extent coverage is written on loans with LTVs below 85%, the required asset factors will overstate the true likelihood of default. This effect will be more pronounced the further the LTV is from the 85% level. For example, if a policy were written on a loan with a 60% LTV, the required asset factor would overstate the probability of default and therefore overstate the required amount of capital. In order to accurately capture the lower propensity of default for <=80% LTV originations, Radian also proposes to expand the LTV bucketing under the draft PMIERs to include specific asset factors for <=80% LTV originations. Ensuring an accurate assessment of risk and required capital for <=80% LTV transactions is a necessary step to facilitate a greater reliance by the mortgage industry on private capital.

Third-Party Opinion and Risk Analytics

39. Should the requirements of a third party opinion or analysis in Section 703 be restricted to a particular purpose, triggering event, and/or frequency?

Yes, the open-ended requirements for a third-party opinion or analysis at the Approved Insurer's expense, as contemplated in the current draft PMIERS, should be more limited and better defined. The lack of a specified scope or frequency leaves insurers open to unanticipated, uncontrollable and uncapped costs that would be borne by all policyholders at the sole direction, and for the sole benefit, of the GSEs. Therefore, a clearer definition of the circumstances of any potentially required third-party opinions or analysis is warranted.

The use of credible third parties can be a good way for the GSEs and FHFA to obtain unbiased information. However, such requests should be reasonable, should give the Approved Insurer enough lead time to obtain the reports without undue burden, and should occur within a regular and reasonable timeframe.

An independent third-party risk analytics firm already provides Radian with annual actuarial opinions on the adequacy of its mortgage insurance reserves, and also prepares an analysis of projected ultimate premiums and losses for our insured portfolio on an annual basis. In the normal course, Radian believes the purpose and frequency of those independent third-party reports are appropriate, and are in the best interest of all policyholders. Radian is willing, and has in the past, to share these opinions and analyses with the GSEs, subject to any releases required by the third-party analytics firm.

Given that the required asset factors under the draft PMIERs for loans insured after 2008 are based on the CCAR Severely Adverse stress scenario, and that the required asset factors for most policies written before 2009 use the CCAR Baseline scenario since the associated loans have already been subjected to significant economic stress, the overall draft PMIERS financial requirements already require that an insurer hold assets upfront to cover lifetime losses under a stressed macroeconomic scenario. Therefore, as long as an Approved Insurer meets these stressed financial requirements, Radian does not believe that any further third-party analysis (beyond the annual actuarial reserve opinions) should be required.

If an Approved Insurer were to fail to meet the financial requirements and be placed into remediation, then an independent third-party analysis of the insurer's claims-paying resources and projected sources and uses of funds would seem justified. In this way, we believe that the requirements for such a third-party analysis is best included within Section 901(Remediation Options). In those circumstances, Radian believes that such an analysis should be prepared by a third-party analytics firm approved by (rather than selected by) the GSEs, to ensure that such work is subject to a competitive bidding process and performed at market rates.

In summary, Radian believes that a requirement related to third-party opinions and risk analytics should be better defined and included within Section 901, such as follows: "As part of any remediation action plan, the GSE may require an approved insurer to obtain an annual third-party opinion or analysis prepared at the approved insurer's request and expense, by a third-party risk analytics firm approved by the GSE."

Overall Impact

40. What may be the impact, if any, on high LTV borrowers of the draft PMIERs?

As discussed in our responses to questions 16-19, the draft PMIERs grids are overly punitive in their assignment of capital. This is most pronounced for creditworthy borrowers with lower qualifying credit scores and modest down payments. As a result, the draft PMIERs are likely to preclude access to credit for some of these borrowers, push them to FHA, or make the cost of mortgages more expensive and thus negatively impact the housing market recovery. In addition, the draft PMIERs are likely to have a disproportionate impact on minority borrowers and low-to-moderate income borrowers.

Utilizing the risk-based required asset factors set forth in Exhibit A of the draft PMIERs and assuming Radian's 2014 year-to-date (YTD) RIF) distribution of business, on a weighted average (WAVG) basis, Radian estimates that borrower mortgage insurance premiums would have to increase by approximately 50% (varies based on credit cohort) to achieve returns equivalent to that under an 18 to 1 risk-to-capital or leverage ratio requirement. This premium increase estimate only contemplates the impact from Exhibit A and does not take into account any increased operational or compliance costs necessitated by the implementation of the PMIERs.

The approximately 50% premium increase estimate is based on the premium increase that would be required to compensate Radian for the increased capital requirements as a result of the application of Table 3 (Post 2008 Performing) and Table 5 (Non-performing) in Exhibit A to Radian's 2014 YTD RIF, which has a weighted average WAVG FICO of 743 and a WAVG LTV of 91.7%.

- **Table 3 (Post 2008)** – Table 3 requires a leverage ratio of approximately 14 to 1 (7.13% of RIF), resulting in a borrower premium increase of ~35%.

- **Table 5 (Non-performing)** – Table 5, which substantially increases the capital requirements for non-performing loans, requires a further ~15% increase in borrower premium as a result of the increase in required capital to account for the probability of

RIF transitioning to non-performing status.

- **Tables 3 and 5 (combined)** – Radian estimates that, on a combined basis, Tables 3 and 5 would result in a WAVG leverage ratio of 12 to 1 (8.31%) utilizing Radian's 2014 YTD RIF. This would result in an estimated ~50% MI premium increase to achieve an equivalent return to that under an 18 to 1 leverage ratio requirement.

The table below summarizes the capital impact and associated premium increase required to achieve returns equivalent to that under an 18 to 1 risk-to-capital requirement due to application of Exhibit A (Tables 3 and 5) to various FICO and LTV distributions of RIF. The table highlights the fact that, as the industry returns to a more normalized credit environment, capital requirements become more burdensome and the impact to borrower MI premium increases. In addition to showing the application of Exhibit A's capital requirements to Radian's 2009-2013 RIF, 2013 RIF, and 2014 YTD RIF, to highlight sensitivity and potential borrower impact Radian has also evaluated two hypothetical scenarios that assume a similar credit migration to that observed from 2013 to 2014:

- **Credit Migration Scenario #1** - Assumes WAVG FICO decreases 9 points and WAVG LTV increases 0.3% from Radian's 2014 YTD RIF.

- **Credit Migration Scenario #2** - Assumes WAVG FICO decreases 9 points from Credit Migration Scenario #1, resulting in an 18 point FICO decrease from Radian's 2014 YTD RIF. WAVG LTV is held constant vs. Scenario #1 due to an assumed "LTV ceiling" and the observed less sensitive nature of LTV in recent vintages.

Summary PMIERs Exhibit A Impact

	Exhibit A Impact - RIF (NIW X Coverage) Weighted Capital Details				
	Radian 2009 - 2013 RIF	Radian 2013 RIF	Radian 2014 YTD RIF	Credit Migration # 1	Credit Migration # 2
WAVG FICO	756	752	743	734	725
WAVG LTV	90.5%	91.1%	91.7%	92.0%	92.0%
Total Leverage Ratio	14.4	13.3	12.0	11.1	10.4
Total Prem Increase (bps)	14.4	21.2	28.9	36.7	43.8
Total Prem Increase %	27.4%	39.8%	53.5%	62.4%	71.8%

As indicated in the table above, as borrower FICO decreases and LTV increases, the premium impact required to achieve returns equivalent to that under an 18 to 1 risk-to-capital requirement becomes more pronounced. For instance, while the application of Exhibit A to Radian's 2009-2013 RIF (756 FICO and 90.5% LTV) would require a 27.4% increase in premiums, its application to Credit Migration Scenario #2 (725 FICO and 92.0% LTV) would require a 71.8% increase.

If implemented as currently proposed, the PMIERs requirements would dramatically increase the amount of capital that Approved Insurers would be required to hold against their high credit quality 2014 new insurance written (NIW):

Capital Standard	Risk to Capital Ratio	Increase to State Minimum
State DOI Minimum	25 to 1	-
Current Radian Benchmark	18 to 1	38.9%
*PMIERs - Exhibit A Table 3	14 to 1	78.6%
*PMIERs - Exhibit A Table 3 & 5	12 to 1	108.3%
**Potential Capital Buffer	11 to 1	127.3%

**PMIERs impact based on Radian 2014 YTD NIW*

***Capital buffer would seek to ensure PMIERs compliance in the face of uncertainty around periodic PMIERs updates and loan performance*

The draft PMIERs capital requirements are particularly punitive for creditworthy borrowers with lower qualifying credit scores and modest down payments, making it very costly for the Approved Insurers to expand its credit standards for worthy borrowers, which will negatively impact overall credit availability. As indicated in the table below, which focuses on the borrower paid monthly premium structure, as borrower FICO decreases and LTV increases, the required premium impact becomes more pronounced. In order to achieve equivalent returns to those under an 18 to 1 risk to capital requirement, certain credit disadvantaged borrowers could see premium increases well in excess of 100%, further exacerbating the risks to credit availability and housing affordability for first-time home buyers. In addition, potential premium increases would put further strain on the current housing recovery as new origination volume likely would be negatively impacted.

Percentage change in premium required to maintain current return levels (18 to 1 Risk to Capital Ratio)

Borrower Paid Monthly Premium

LTV/FICO	760+	720 - 759	680 - 719	620 - 679
95 - 97	18.5%	90.4%	132.4%	244.6%
90 - 95	-6.9%	40.2%	73.8%	165.2%
85 - 90	-25.1%	8.3%	31.1%	93.2%
80 - 85	-26.1%	-14.0%	-4.2%	23.6%

High LTV borrowers are also disproportionately penalized as a result of the draft PMIERs requirement that would exclude the consideration of future premiums in respect of newly originated loans in an Approved Insurer's Available Assets. Under the draft PMIERs, relative to lower LTV borrowers, high LTV borrowers are assessed higher capital levels to account for a higher expectation of loss. Approved Insurers account for this higher expectation of loss in the assessed premiums, but under the draft PMIERs the Approved Insurers are burdened with extremely punitive capital requirements while receiving zero recognition for future earned premiums, which are set at levels to account for this risk. By giving no consideration to future earned premiums, the draft PMIERs will further limit credit availability and materially increase costs for many worthy borrowers. (Please see the responses to Questions 30-34 for further details regarding the draft PMIERs' treatment of UPR and future premiums.)

The tables below compare the monthly payment differential between a conventional loan utilizing MI and a FHA insured loan for a borrower across the FICO/LTV spectrum. The first table shows the differential utilizing current pricing, while the second table shows the differential utilizing

estimated pricing required to achieve returns equivalent to that under an 18 to 1 risk-to-capital requirement factoring in the impact of Exhibit A of the draft PMIERs. As indicated in Table 3 below, the application of Exhibit A would result in an increase in the borrower's MI payments across most credit cohorts, resulting in a decrease in the borrower's benefit using MI as compared to FHA insurance with the exception of the highest credit quality buckets. In the case of the highlighted (light blue) buckets in Table 2 below, a borrower's best execution would shift from private MI to the FHA since the current pricing advantage of private MI (in red below) would shift to a disadvantage once the estimated impact of Exhibit A was accounted for in premium pricing.

Table 1 - Current Pricing

Borrower Paid Monthly MI		760+	740 - 759	720 - 739	700 - 719	680 - 699	660 - 679	640 - 659	620 - 639
Conventional with MI Payment Differential to FHA	>95 LTV	($52)	($43)	($37)	$14	$14	$64	$76	$96
	95 LTV	($143)	($128)	($122)	($62)	($55)	$16	$29	$42
	90 LTV	($153)	($145)	($139)	($105)	($99)	($52)	($40)	($27)
	85 LTV	($171)	($165)	($159)	($139)	($127)	($90)	($78)	($78)

Table 2 - Estimated Pricing After Exhibit A Impact

Borrower Paid Monthly MI		760+	740 - 759	720 - 739	700 - 719	680 - 699	660 - 679	640 - 659	620 - 639
Conventional with MI Payment Differential to FHA	>95 LTV	($18)	$136	$142	$329	$329	$719	$731	$751
	95 LTV	($150)	($84)	($78)	$56	$62	$355	$367	$380
	90 LTV	($170)	($138)	($132)	($75)	($69)	$60	$72	$84
	85 LTV	($181)	($171)	($166)	($140)	($129)	($75)	($64)	($64)

Table 3 - Delta Between Tables 1 and 2

Borrower Paid Monthly MI		760+	740 - 759	720 - 739	700 - 719	680 - 699	660 - 679	640 - 659	620 - 639
Conventional with MI Payment Differential to FHA	>95 LTV	$34	$179	$179	$315	$315	$655	$655	$655
	95 LTV	($7)	$45	$45	$118	$118	$338	$338	$338
	90 LTV	($17)	$7	$7	$30	$30	$111	$111	$111
	85 LTV	($10)	($6)	($6)	($2)	($2)	$14	$14	$14

**Positive number indicates conventional with MI execution worsened compared to FHA*

While piggyback lending has begun to moderately reemerge after having largely been absent in the post-crisis era, further worsening in MI execution for low down payment borrowers could initiate a resurgence in piggyback second transactions.[1] While putting an increased burden on the taxpayer as a result of the increased exposure to the GSEs (higher effective LTV), these transactions also pose a great risk to the overall housing sector. Many of these transactions (e.g., HELOCs) contain interest only and extremely high interest rate cap features, subjecting borrowers to high levels of payment shock and originators to potential legal risk as a result of their non-QM/non-covered designation. Furthermore, as indicated in Radian's comment letter on the draft PMIERs, relative to loans utilizing MI, piggyback transactions leave the GSEs exposed to higher loss severities on loans that have historically performed significantly worse than loans with MI.

The table below illustrates the impact on various borrower classes from imposing the draft PMIERs grids on actual loans insured by Radian. The results show that all borrower classes would experience material percentage increases in premiums from current premium levels (approximately 29% higher in aggregate) if MI returns are held constant to those under an 18-to-1 risk-to-capital

[1] A "piggyback" mortgage is the common phrase used to describe the simultaneous use of a second mortgage with a first mortgage to expressly avoid the need for private mortgage insurance on loans sold to the GSEs.

requirement. In addition, the rate increases under the draft PMIERs would be approximately 87% higher for African-American and 59% higher for Hispanic borrowers than for White borrowers.

PMIERs Exhibit A - Impact by Borrower Class

Race	Count**	Premium Percentage change	Payment Percentage change *
American Indian or Alaskan Native	1,280	41.6%	38.8%
Asian	24,721	22.2%	19.6%
Black or African American	13,117	50.1%	49.9%
Hispanic	31,955	42.7%	39.6%
Native Hawaiian or Pacific Islander	1,587	30.1%	28.2%
White	355,629	26.8%	25.0%
Aggregate	**428,289**	**28.7%**	**26.6%**

**Percentage change in dollar will be slightly different than change in rate, due to different weight in loan amount on loan level*

***Population represents 2012 through 2014 YTD BP Monthly NIW*

41. What may be the impact, if any, on low credit score borrowers of the draft PMIERs?

As discussed in the response to Question 40, based on a study of Radian-insured loans, the draft PMIERs will have a disproportionate adverse effect on creditworthy borrowers with lower qualifying credit scores and modest down payments. As shown in the response to Question 40, premiums would have to materially increase for lower credit score borrowers in order to hold MI returns constant to those under an 18 to 1 risk-to-capital requirement. Furthermore, minority borrowers would be disproportionately affected by the draft PMIERs given their relatively higher concentrations in lower credit scores, as illustrated in the table below.

Group	Proportion with FICO <=680
American Indian or Alaskan Native	11.1%
Asian	4.7%
Black or African American	14.1%
Hispanic	10.5%
Native Hawaiian or Pacific Islander	5.9%
White	5.9%

42. What may be the impact, if any, on Seller/Servicers of the draft PMIERs?

As described in the response to Question 40, the draft PMIERs have the potential to increase mortgage credit risk of Seller/Servicers by increasing the proliferation of higher LTV loans through piggyback products originated as mortgage portfolio products. This could be exacerbated by the use of non-QM HELOC products. In addition, overall, the draft PMIERs have the potential of creating an artificial drag on the mortgage market that would translate into lower profitability for Seller/Servicers and less origination volume.

Of particular note, with respect to the impact on Seller/Servicers, are the following:

- The GSEs should recognize that the draft PMIERs have newly burdensome impacts on Seller/Servicers and will likely result in Approved Insurers making redundant demands of Seller/Servicers (Please see the response to Question 14 above).

- Seller/Servicers will be impacted by the PMIERs to the extent that the Approved Insurers need to change certain approval processes. For example, delegation to a lender's AUS may require the Approved Insurer to perform a more thorough review of the AUS. This may significantly impact the Seller/Servicer because it will need to conduct this review for up to seven Approved Insurers in today's market.

- The drafts PMIERs make it more difficult to become a Master Policy holder. The requirement for more thorough review of a new lender application impacts Sellers because they likely are requesting approval for up to seven Approved Insurers. The lender approval guidelines require "consideration of a lender's historical loan performance", which may create a barrier of entry for a start-up mortgage lender.

- In Section 307, the requirement for GSE approval of agreements in the normal course of business or agreements that do not materially impact the GSEs will cause unnecessary burden and disrupt normal business operations between the Approved Insurer and Seller/Servicers.

- The draft PMIERs limits an Approved Insurer's ability to offer delegated underwriting authority to a new lender, which may create barriers of entry for start-up lenders. The PMIERs should allow the Approved Insurer to ensure quality and compliance of underwriting standards through the lender monitoring process as opposed to making this a requirement in the lender approval process.

43. What may be the impact, if any, of the draft PMIERs on Approved Insurers who are considering writing forms of insurance that are different from the traditional loan-level, borrower-paid mortgage insurance (BPMI) ?

As detailed in the response to Question 38, the draft PMIERs limit future opportunities for Approved Insurers since they were based on primary policies at standard coverage levels without contemplating other forms of coverage. If not modified, the requirements will restrict Approved Insurers' ability to respond quickly to a continually evolving mortgage market and limit the extent to which Approved Insurers can serve as sources of private capital for the mortgage market.

H. Failure to Meet Requirements (Post-Transition Process)

44. Are the remediation measures sufficiently comprehensive? Should the number of measures be reduced, expanded or refined and, if so, how?

GSE discretion to impose remediation options should be better defined to make sure that the option exercised is commensurate with the scope and seriousness of the breach of the PMIERs. Further, in certain instances, a materiality qualification should be incorporated in the concept of

PMIERs compliance and remediation so that it is understood that all remediation actions are not available in the event of an immaterial or unintended breach of the PMIERs. The purpose of remediation should be to facilitate an Approved Insurer's compliance with the PMIERs, rather than increase the requirements over and above the PMIERs.

In addition, Remediation Options 7 (Increase the minimum required assets), 8 (Further limit the types of assets that may be considered Available Assets), and 11 (Commute or restructure existing risk-in-force) should be removed from the list of Remediation Options.

The GSEs' ability to change the financial requirements for an Approved Insurer in remediation creates significant uncertainty and complicates capital planning. A formal independent appeals process is necessary to protect Approved Insurers from unacceptable or excessive remediation actions, inconsistent remediation actions by the GSEs, or disagreements in the interpretation of PMIERs compliance.

45. Do the remediation measures present any unintended consequences or operational constraints?

Yes. Without a materiality qualification, the draft PMIERs include a strict adherence approach that is unnecessary and overbearing. For instance, as currently proposed, a timeline breach with respect to a single claim potentially could subject an Approved Insurer to any one of the remediation options. As a result, this may force Approved Insurers to take excessive and expensive measures to ensure absolute compliance, which can strain the Approved Insurer's operations and negatively impact Seller/Servicers. In this case, we believe the cost of such measures would significantly outweigh the benefits of such efforts.

46. Are there remediation frameworks that would serve as an alternative to the proposed approach?

Remediation options should be redefined such that the remediation action is appropriately correlated with the severity of the PMIERs breach. A clear and documented process for written notification of a breach, submission of a corrective action plan, timeline for corrective action, and status updates should be added to the PMIERs. The GSEs should engage with the Approved Insurer in a process that promotes a clear path to curing a breach.

47. Should the PMIERs include an appeals process to provide an Approved Insurer with a means to dispute remediation actions taken by the Enterprises? If so, what should that process consist of and should it apply to all remediation actions or to a subset?

Yes. We strongly recommend the formation of an independent third-party appeals process for all remediation actions. This will give greater assurance to the market that Approved Insurers will not be negatively impacted by biased interpretations of the requirements, conflicting feedback from GSEs regarding compliance, excessive use of remediation options, or inconsistent application of the PMIERs across Approved Insurers. We also recommend that the concept of an appeals process be expanded to more broadly cover compliance with the PMIERs in general, rather than be limited to

disputes of remediation actions.

Please see the response to Question 1a for further details on our recommendations regarding an independent appeals process.

J. Transition Process

49. What would be the appropriate length of time for Approved Insurers to fully comply with the Financial Requirements of the revised PMIERs?

Other than with respect to the treatment of Radian Asset, which is discussed below, we believe that a meaningful two year transition period for financial compliance is reasonable. The non-binding Overview for the draft PMIERs states that there will be a two year transition period for compliance with the new financial requirements. However, the actual text of the draft PMIERs does not explicitly provide for this two year compliance period. Instead, the draft PMIERs read such that compliance is required within six months, with a remediation period to be granted for up to an additional 18 months for those companies not then in compliance with the PMIERs financial requirements. This leaves ambiguity as to whether an Approved Insurer would be "out of compliance" with the PMIERs following the initial six month period, even though it was on a path to compliance within the full two year transition period. This uncertainty should be resolved by making clear that the compliance period for the financial requirements will be two years after the publication of the PMIERs. To impose anything less would be unreasonable and inconsistent with the recent implementation of other regulatory capital schemes such as the regulatory treatment of changed capital requirements under Basel III, which allow a four year transition period. To the extent the GSEs are concerned that Approved Insurers would not be moving expeditiously towards compliance within the full two year compliance period, the PMIERs provide the GSEs with extensive discretion and remediation options to ensure compliance efforts remain on track.

With respect to Radian Asset, as discussed in Section 3 of our comment letter, in order to maximize the value of Radian Asset for Radian Guaranty's policyholders and beneficiaries (including the GSEs), we believe our investment in Radian Asset should be included in the Available Assets, but phased out over an extended four year period, consistent with Basel III treatment of changing capital regimes.

Bank regulators have long understood that the imposition of changes to the banks' capital regime requires a meaningful transition period in order to avoid market disruptions. For example, banks were given a four year period for compliance with the treatment of Accumulated Other Comprehensive Income (AOCI) under Basel III. Our proposal for a four year phase out of our investment in Radian Asset corresponds to this Basel III approach, as we believe a similar period is warranted with respect to the new treatment of subsidiary capital. The PMIERs should provide a reasonable period of time to implement the necessary changes, with partial credit for subsidiary capital being granted and phased out over time.

50. Should the duration of a transition period for full compliance with the Financial Requirements of the revised PMIERs be consistent for all Approved Insurers or varied depending on each company's unique circumstances?

As discussed in the response to Question 49, we believe a clear and explicit two year transition period for compliance with the PMIERs' financial requirements should apply to all Approved Insurers. An Approved Insurer also may be subject to unique circumstances that would warrant an additional period of compliance. For example, as discussed in response to Question 49, we believe that our unique capital structure involving significant dependence on our investment in Radian Asset should warrant a longer compliance period to ensure we are able to maximize the value of our investment in that company. To the extent other Approved Insurers face their own unique circumstances, we believe the PMIERs should explicitly provide the GSEs with the flexibility to extend compliance periods for individual companies, as necessary.

Additional Areas of Concern: We request consideration of the following list of issues, each of which is not directly addressed in the questions posed for input.

1. Audit Committee Requirements Conflict with authority under State and Federal Regulation:

Section 103 of the draft PMIERs prohibits an officer, director, employee or any other representative of a mortgage enterprise or affiliate thereof from sitting on the Audit Committee of the Board of Directors of an Approved Insurer, regardless of the ownership or control of the Approved Insurer. As drafted, PMIERs Section 103 has potential implications for the directors of publicly-traded holding companies of an Approved Insurer. For example, Radian has elected to designate the Audit Committee of Radian Group as the Audit Committee for Radian Guaranty, which is permissible under Section 147.3a of the Pennsylvania Code. The members of the Radian Group Audit Committee are serving in this capacity solely pursuant to Section 147.3a of the Pennsylvania Code and are not directors of the Approved Insurer. If PMIERs Section 103 is adopted as currently drafted, a publicly-traded holding company may be precluded from designating its Audit Committee as the Audit Committee for the Approved Insurer.

We recommend that the provision, "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," be modified to make clear that it does not apply to directors of publicly traded companies that control the Approved Insurer and may be designated to provide oversight with respect to the Risk, Compensation or Audit aspects of the Approved Insurer, but are not directors of the Approved Insurer.

Our recommendation is based on our understanding that the PMIERs are not intended to address the governance of publicly traded companies that are subject to the governance requirements of the Securities and Exchange Commission, the exchange on which they are listed (e.g., NYSE or NASDAQ) and applicable federal and state law. In addition, the clarification we are recommending would align the PMIERs with Pennsylvania law which permits Radian Group to designate its Audit Committee as the Audit Committee for Radian Guaranty because the parent company is a Sarbanes-

Oxley compliant entity.

2. Document Retention: Mortgage Payment Records:

The document retention requirements and the requirement to establish guidelines concerning the mortgage payment record should be eliminated as unnecessary and unduly burdensome, in particular since Approved Insurers do not have access to the records to satisfy these requirements.

The Approved Insurer should not be expected to maintain mortgage payment records or to establish servicing guidelines for adequate controls of documenting, maintenance and quality of mortgage payment records. Approved Insurers (including Radian) do not have access to all mortgage servicing systems. Approved Insurers currently do not have responsibility to monitor servicers, reconcile payment records, and ensure quality in their mortgage payment records. The PMIERs should not impose such responsibility through records management and payment guidelines.

3. Investment in and Capital Support for Other Entities :"Obligation to provide other insurance"

The draft PMIERs indicate that an Approved Insurer is prohibited from incurring or assuming "an obligation to provide additional insurance." Radian currently provides pipeline coverage to its lenders and enters into short term insurance commitments that have a defined term and/or volume cap.

It should be clarified that Section 707 does not prohibit pipeline coverage, pricing commitments or guideline / program commitments. Such a prohibition could have a negative impact on the Sellers who need to ensure that they will be able to obtain MI coverage on their production pipelines through periods of guideline contraction. Sellers need time to cut off applications, which may require program, product, and system changes. In addition, pricing or guideline commitments provide important value to Sellers by assuring that insurance will be available under a set of guidelines and pricing for a short period of time.

4. Inconsistency with Master Policy:

The draft PMIERs require that a claim be denied within 120 days if the servicer fails to perfect the claim. Radian understands this to be a final denial (i.e. servicer can no longer perfect the claim). If so, this requirement is in conflict with our existing Master Policy which allows for a longer period under certain circumstances and therefore should apply only to new loans insured under the new Master Policy.

5. Third-Party Vendors:

The PMIERs should clarify that any operational requirement of the Approved Insurer may be performed by a third party vendor or an affiliate of the Approved Insurer.