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The Federal Housing Finance Agency
Constitution Center
400 7th Street, SW
Washington, DC 20014

Attention: Private Mortgage Insurance Eligibility Project

Dear Sir or Madam:

The Housing Policy Council of the Financial Services Roundtable (HPC)[1] appreciates the opportunity to submit these comments to the Federal Housing Finance Agency (FHFA) on the proposed Private Mortgage Insurer Eligibility Requirements (PMIERS).

I. Overview of Comments

HPC agrees with the need for appropriate financial and operational standards for private mortgage insurers that are counterparties to Fannie Mae and Freddie Mac (the GSEs). Private mortgage insurance (PMI) performs an important role in our housing finance system. It facilitates access to higher loan-to-value (LTV) ratio borrowers, such as first time home borrowers and lower-income borrowers. Therefore, it is crucial that PMI be reliably available to support such loans throughout different economic cycles. The proposed PMIERS would help ensure that private mortgage insurers are able to perform this function.

HPC believes, however, that the proposed PMIERS could be improved in certain respects. First, and foremost, we believe that the proposed PMIERS should give greater consideration to the housing credit needs of higher LTV ratio borrowers. The proposal is focused on safety and soundness and does not sufficiently reflect the important role that mortgage insurers perform in making housing finance available to such borrowers. In other words, the proposal should have a better balance between needed safety and soundness standards for mortgage insurers and enabling access to reasonably priced housing credit for credit worthy first time homebuyers and lower income homebuyers.

[1] The Housing Policy Council of The Financial Services Roundtable consists of thirty of the leading national mortgage finance companies. HPC members originate, service, and insure mortgages. We estimate that HPC member companies originate approximately 75% and service two-thirds of mortgages in the United States. HPC's mission is to promote the mortgage and housing marketplace interests of member companies in legislative, regulatory, and judicial forums.

Second, the proposal is simultaneously vague in some respects and overly prescriptive in others. This creates compliance challenges for all members of the HPC, including lenders and servicers that interface with mortgage insurers.

Finally, we believe that the proposal vests too much discretion and control over the requirements to the GSEs. The proposal raises fundamental policy issues that are best addressed by FHFA, not the GSEs. Accordingly, we recommend that future changes to the requirements should be subject to public notice and comment.

I. Discussion

The Eligibility Requirements for Mortgage Insurers Should Balance Liquidity and Stability

We recognize the need for the GSEs to oversee counterparties, including mortgage insurers. Strong capital requirements are a critical component of such oversight. For example, HPC's members, including its mortgage insurer members, acknowledge that the existing static 25:1 risk to capital standard needs to be supplemented with a more risk sensitive approach to claims paying ability.

Yet, as FHFA notes in the introduction to the proposal, Congress chartered the GSEs to provide *both* stability and liquidity to the secondary market for residential mortgages. The GSE Chartering Acts also give mortgage insurance a central role in making sure that housing credit is available to higher loan-to-value (LTV) ratio borrowers such as first time homebuyers. Additionally, FHFA's strategic plan for 2014 includes broad credit access as one of its goals.

Given the statutory mandate of the GSEs, and FHFA's desire to provide broad access to mortgage credit, we recommend that FHFA be mindful of the impacts that certain components of the proposed capital requirements might have on high-LTV credit availability.[2] One example is the requirement that loans with a debt-to-income (DTI) ratio greater than 43% include a risk weighting multiplier of 2.00.[3] Another example is the apparent double-counting of MI premiums and increased LLPAs by the GSEs in certain risk categories. These requirements seem inconsistent with recent public calls by the FHFA,

[2] A recent paper by Mark Zandi and Jim Parrot entitled "Putting Mortgage Insurers on Solid Ground" concludes that some of the requirements in the PMIERS would unnecessarily increase the cost of PMI and could operate in a pro-cyclical manner.
[3] PMIERs Exhibit A Table 3A.

CFPB and other regulators for broader credit access. We urge FHFA to be mindful of such inconsistencies so that the PMIERS can achieve an appropriate balance between the need for the GSEs to manage counter-party risk and meeting their statutory obligation to provide liquidity to housing markets.

The Eligibility Requirements Should be Clear and Not Overly Prescriptive

We are concerned that the proposed requirements are simultaneously vague in some places and overly prescriptive in other places. This creates compliance challenges for all market participants, including lenders and servicers that interface with mortgage insurers.

The operational performance scorecard is an example of a vague provision. The proposal requires approved insurers to be evaluated on a regular basis by metrics contained in this scorecard, but fails to indicate what those metrics may be, on what basis they may be selected or on what basis they may be changed by the GSEs. Yet, the failure of a mortgage insurer to adhere to the metrics will subject the insurer to remedial action at the complete discretion of the GSEs. The financial requirements are too vague and lack transparency. While the proposal lists a number of specific requirements, it is unclear how those requirements were derived, or how they may change over time.

Conversely, the quality control provisions and lender guidelines are examples of overly prescriptive provisions. Relations between lenders and mortgage insurers are subject to separate contracts, and the terms and conditions of those contracts are more appropriately controlled by the parties to the contracts. Another example is the officer certification requirement. It is not realistic to expect an individual officer to certify that the insurer has met "all" of the requirements, especially when some of those requirements are not clearly stated and often are not qualified by any standards of materiality.

We recommend that FHFA and the GSEs eliminate provisions that are vague and provisions that are overly prescriptive.

Future Changes to the PMIERS Should be Subject to Public Notice and Comment

We appreciate the fact that FHFA has invited public comment on the proposed eligibility requirements for mortgage insurers. Transparency in the establishment and revisions to the PMIERS provides certainty and stability for mortgage insurers and investors in mortgage insurance companies. Therefore, we urge FHFA and the GSEs to subject future changes to the PMIERS to public notice and comment.

III. Conclusion

FHFA has a statutory duty not only to ensure that the GSEs operate in a safe and sound manner, but also to ensure that they do so in a manner that fosters liquid, efficient, competitive and resilient national housing finance makers, including markets for low and moderate-income families. This is a delicate balance, but one that can be achieved by revising the PMIERS to take into account the proposals we are raising, and subjecting any future changes to these standards to public notice and comment.

Thank you for considering our recommendations for refining this important PMIERS proposal. The Housing Policy Council wants to continue to work with FHFA in strengthening all aspects of the housing finance system.

Sincerely,

John H. Dalton

John H. Dalton
President
Housing Policy Council
The Financial Services Roundtable