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September 8, 2014

The Federal Housing Finance Agency
Constitution Center
400 7th Street, SW
Washington, DC 20014
Attention: Mortgage Insurance Eligibility Project
Submitted via FHFA.gov

Ladies and Gentlemen:

Genworth Financial ("Genworth") is pleased to submit this response to the Federal Housing Finance Agency ("FHFA") on the draft of revised private mortgage insurer eligibility requirements ("PMIERs") that private mortgage insurers ("MIs") would need to satisfy in order to provide insurance on mortgage loans owned or guaranteed by Fannie Mae and Freddie Mac ("the Enterprises"). Genworth fully supports the intent of the PMIERs to further strengthen confidence in mortgage insurers as sound, stable and reliable providers of credit enhancement for the U.S. housing finance system. The goal of the PMIERs should be to strike an appropriate balance between the role of MIs as providers of credit risk protection that mitigates future Enterprise losses, and our role of ensuring affordable access to mortgage credit for low down payment borrowers, especially first time homebuyers, low to moderate income borrowers and members of underserved communities.

Introduction.

MIs, like the Enterprises and other housing finance institutions, suffered unprecedented losses during the recent financial crisis. Nevertheless, they continued to insure new business and pay claims, and they have since taken a number of important steps to significantly improve their strength and resilience:

- Since 2008, MIs have paid approximately $43 billion in claims to the Enterprises.[1]
- MIs have worked with FHFA and the Enterprises to strengthen the terms of our master policies, the contracts that govern the terms of the insurance we provide. Revised master policies will become effective on October 1, 2014.

[1] One MI in run off recently received approval to pay all claims in full. Another has regulatory approval to pay claims at the rate of 75 percent cash with the remainder paid via a deferred payment obligation ("DPO") and the third has approval to pay claims at the rate of 67 percent cash with the remainder paid via DPO. As of December 31, 2013, MIs have DPOs outstanding to the Enterprises of approximately $2.7 billion, which represents only approximately six percent of the total mortgage insurance claims paid to the Enterprises since 2008.

- The industry has recapitalized through a combination of organic revenue growth driven by the premiums required to be paid to us for the insurance coverage we provide, and through approximately $9 billion in new capital that has been invested in our industry.[2]
- State regulators, through the National Association of Insurance Commissioners ("NAIC"), have commenced work to update the Mortgage Guaranty Model Act, and that update will include the introduction of risk-based capital requirements.
- Five of the seven MIs that are currently writing new business have engaged the services of a globally recognized management consulting firm with a specialized actuarial practice to construct a risk-based capital model that will measure an MI's ability to pay claims in the event of a severe market stress. The model will be subject to back-testing, will be transparent and verifiable and will be designed to function counter cyclically, so that claims-paying resources will accumulate during strong housing markets and are available to pay claims during market downturns.

Genworth agrees that an important lesson learned from the financial crisis is that a static risk to capital ratio of 25:1 is not sufficient to ensure claims-paying ability in the event of a sustained national housing downturn. Going forward, capital standards should be risk sensitive and counter cyclical, should anticipate severe stress and should be complemented by liquidity standards that ensure that resources are available to pay claims. However, if those standards are set unnecessarily high, the cost of homeownership will rise unnecessarily as well. The resulting adverse impact will be especially severe for borrowers least able to bear the added cost: first time homebuyers, low to moderate income borrowers and members of underserved communities.

Our suggested modifications to the draft PMIERs have been guided by three key principles: (1) the importance of *methodology* regarding analytics, modeling and economic assumptions, (2) *transparency* regarding how the asset test will be applied, when and how the PMIERs will be revised and how the Operational Scorecard metrics are set, will change over time and how they will be applied, and (3) *governance (procedural certainty)* that provides for mutual engagement, appropriate notice, and a fair opportunity to cure or otherwise respond to possible changes in an MI's status. Absent appropriate methodology, transparency and governance, it would be almost impossible for an MI to develop any meaningful insight into how housing market trends, mix of business or changes in the macroeconomic environment might impact its status under the PMIERs. In turn, basic business strategy such as capital planning would be severely constrained. Application of these principles, in tandem with the policy goal of balancing safety and soundness with broad and appropriate access to mortgage credit, will position the MI industry as a sound and reliable counterparty that is attractive to private capital and able to serve our important mission of enabling home ownership for low down payment borrowers.

We have provided these suggested modifications because of our strong concern that, in some respects, the PMIERs fail to achieve the necessary balance between safety and soundness and broad and appropriate access to credit. As discussed in detail in "Overview of Issues and Recommendations" below, the comparison of available assets to risk-based required assets (the "asset test") should be modified to:

[2] Calculated based on 2013 SEC and GAAP filings for Genworth, MGIC, Radian, and Essent. Pre-2013 data calculated based on statutory financial statements for Genworth, MGIC, Radian, Essent, National MI and PMI.

- Give appropriate credit for future premiums;
- Add seasoning factors;
- Fix the asset test to be counter cyclical (not pro-cyclical);
- Make certain factors more granular;
- Add transparency to the asset test; and
- Enhance governance provisions.

Without these modifications, the PMIERs would lead to tighter mortgage credit that would exacerbate any housing market downturn.

In this letter, we recommend several adjustments to the asset test that are prudent and based on historical loan performance across cycles. Our recommendations would align the PMIERs with decades of mortgage credit data by applying factors that are transparent, that clearly reflect the (unexpected) risk of loss under stress and that can clearly be anticipated and applied by each MI. If these recommendations were adopted, we believe the PMIERs would accomplish the important objective of balancing safety and soundness with broad and appropriate credit access in a manner consistent with our three overarching principles. These recommendations are based on extensive work we have done to back-test the asset test and apply it to the Genworth book of business, work that we have shared with the Enterprises. We assume the Enterprises have undertaken a similar exercise, but we have not yet been afforded the opportunity to compare our results to theirs.

Set forth below is an overview of issues and recommendations, followed by detailed answers to the questions included in Section V of the Overview of the Draft PMIERs. In addition, Attachment 1 is a detailed redline of the draft PMIERs setting forth recommended revisions to the draft and, where helpful, commentary explaining the revisions.

<u>Overview of Issues and Recommendations.</u>

<u>Comparison of Available Assets to Minimum Required Assets.</u>

Genworth agrees that the PMIERs must move from the pre-crisis approach of determining MI eligibility based on external financial strength ratings to a risk-based methodology that assesses each MI provider's claims-paying ability under stress. However, making this change is a material undertaking that requires collaboration among the MIs, the Enterprises and FHFA, including comparing model construction, validating assumptions and calibrating model outputs. Genworth has attempted to apply the asset test to our current book of business, and we assume that the Enterprises have conducted the same exercise. However, we have not yet had the opportunity to compare our results with the Enterprises or otherwise confirm our understanding of how the model functions, and we have a number of questions and concerns regarding the asset test that remain unanswered. As a meaningful reference point, we attempted to apply the asset test to the FHA's book of insured business as a benchmarking exercise, and the result was a capital shortfall of approximately $50 billion. This result is directly at odds with statements by HUD and FHA officials regarding the improvement in the FHA Single Family Mutual Mortgage Insurance Fund. Holding the FHA to materially lower capital and liquidity standards results in a preference for government insurance over private insurance backed by private capital. (*See* our responses to the questions set forth in Section V of the Overview of the Draft PMIERs and the proposed revisions and commentary included in the redline of PMIERs in Attachment 1 for a more detailed discussion of these issues and questions.)

Future Premiums.

Mortgage insurance premiums for monthly and annual premium products (which represent approximately 80 percent of new insurance written) are required to be paid over the life of our insurance exposure, and an MI's obligation to continue providing insurance coverage is contingent upon the payment of premium. Still, the asset test fails to recognize the fair value of this contractually required premium stream for loans insured after 2008. The inclusion of premiums for loans originated before 2009 is appropriate, and that same treatment should be applied to subsequent originations. Failure to remedy this flaw would result in material understatement of the value of available assets. In this regard, the model is inconsistent with the recognition of mortgage servicing under the Federal Reserve's Comprehensive Capital Analysis and Review ("CCAR"), to FHFA's recognition of future Enterprise guarantee fees in the Fannie Mae and Freddie Mac stress tests, to actuarial analysis undertaken by State Departments of Insurance ("DOIs"), and to the FHA's actuarial reporting that includes the fair market value of premiums that will be collected on existing insurance.[3] Recognizing future premiums has the added benefit of encouraging prudent MI pricing, because any decrease in premiums would have an immediate impact on an MI's available assets under the asset test calculation.

To be conservative, Genworth is not recommending that all future premiums be included in the asset calculation, because premiums are no longer owed when a loan terminates.[4] Instead, we recommend including an amount equal to 210 percent of prior year's earned premiums. (This is the same methodology the Enterprises used for the 2008 and prior year vintages.[5]) For added conservatism, we support (1) capping the aggregate premiums that would be included in the available assets test at 35 percent of available assets (maximum concentration of total future premiums compared to total available assets), and (2) when counting future premiums attributed to single premium product, capping the amount included at 40 percent of the original unearned premium in a vintage year. These caps would avoid a possible incentive for an MI company to "outrun" projected shortfalls in available assets by imprudently increasing its production in any single vintage year or product type. For similar reasons, we also recommend that for all vintages, future premiums be reduced by the amount of unearned premium reserves reflected in the insurer's statutory financial statements (consistent with the way the PMIERs treat the 2008 and prior vintages).

Seasoning.

Loan seasoning is a material factor in assessing the probability that a loan will go into default. As a result, the asset test should be revised to recognize the impact of loan seasoning on probability of default for newer books, beginning with the 2009 vintage. Specifically, the longer a mortgage loan remains performing, the lower the probability of future default. In this context, the timing and slope of the mortgage "loss curve" is well observed and reflected in virtually all established mortgage

[3] *See* FHFA Projections of the Enterprises' Financial Performance (Stress Tests), April 30, 2014, available at http://www.fhfa.gov/AboutUs/Reports/ReportDocuments/GSEFinProj2014FINAL.pdf.

[4] Loans can terminate (along with the obligation to pay premium) for reasons including refinance, pay off or borrower default.

[5] We recommend applying this methodology to single premium products, so that some portion, but not all, of the unearned premium reserve for single premium loans is included. We do not think giving credit for the entire unearned premium reserve on day one is consistent with the desire to adopt a conservative methodology.

performance models. In contrast, the PMIERs as drafted fail to recognize any impact of seasoning for loans originated after 2008. Including a seasoning factor would be a simple way to recognize the impact of temporal diversification that will help make the asset test dynamic.[6]

The Enterprises have suggested that the impact of seasoning is "embedded" in the asset test, but because we have not been provided with details on how the model has been constructed, we cannot determine whether the impact of seasoning is appropriately recognized. In any event, separately identifying the seasoning factors would make the asset test more transparent, and would enable MIs to better plan for their capital needs over time. *See* our response to question 16 in the Overview of the Draft PMIERs for a more detailed discussion of seasoning and a detailed recommendation for including a seasoning factor in the PMIERs.

Counter Cyclicality.

The asset test establishes factors for loan performance under stress that were developed based on CCAR, which is designed to measure capital adequacy under stress for diversified banks, not for monoline mortgage guaranty insurers. As a result, the Enterprises have modified CCAR in an attempt to reflect the MI business model of insuring against long tail housing risk in diverse regional markets. We are very concerned that the way the Enterprises have modified CCAR does not adequately account for the material differences between banks and MIs. In particular:

- The nature of risk assumed by a monoline mortgage insurer is fundamentally different from that of a commercial bank, and that difference makes it difficult to apply CCAR standards to MI companies without substantial, complex modifications. MI companies are primarily affected by home price patterns which develop over longer periods of time. Declines are driven by imbalances between supply and demand for housing and markets recover when this balance has again been reached. In order to function properly, the MI model must be designed to act counter cyclically -- building capital during strong markets in order to use a portion of that capital to pay claims during downturns while continuing to write new business to support the housing recovery.
- CCAR shows little sensitivity to past home price declines in forecasting future adverse scenarios. This has the effect of subjecting MI portfolios to repeated adverse stress that would be truly unprecedented, and adds to the pro-cyclical nature of the asset test that makes the application of the test unduly adverse. For example, the PMIERs would have required the MIs to hold assets sufficient to withstand a 20 percent downturn in home prices beginning in 2012 even though home prices had already declined 33 percent since 2007 (e.g., would have required a stress scenario of a 46 percent national home price decline). In fact, prices have increased 17 percent over this time period. As drafted, the asset test would force MIs to limit new business in order to unnecessarily retain capital to maintain their status as Approved Insurers during market downturns. This would restrict access to credit and exacerbate a housing decline at precisely the time that broad access to appropriate credit is most needed. This market dynamic is evidenced by the dramatic increase in CDS spreads for monoline mortgage insurers experienced in 2008 and 2011, further discussed in our response to question 28 of the Overview of the Proposed PMIERs.

[6] Insurance regulators in Australia and Canada, the other two most developed global mortgage insurance markets, include the impact of seasoning in their risk based capital requirements by applying a simple grid that sets forth seasoning factors based on loan age.

Asset Test Transparency and Predictability.

We are deeply concerned about the lack of transparency in a number of respects related to the asset test. For example, the asset test was constructed based on a range of macroeconomic stress assumptions drawn from a variety of sources, including FHFA's Countercyclical Capital Regime – a model that FHFA has described in a white paper but has not been made available to the MI industry. Similarly, the test projects claims using FHFA's Mortgage Performance Model, which also is not publicly available. MIs must have sufficient information to assess and calibrate to the standards that the Enterprises are using to develop, apply and eventually to modify the asset test so that we can validate test results, undertake effective capital planning and implement effective risk management. In addition, greater transparency will make the PMIERs a valuable tool for other stakeholders and policymakers. *See* our response to questions 16 and 20 of the Overview of the Proposed PMIERs and Attachment 1 for a detailed discussion of the fundamental questions and concerns we have regarding lack of transparency in the asset test.

Factor Granularity.

- 2005-2008 Vintages. It appears that the factors for performing loans in the 2005 - 2008 vintages (Table 2 in Exhibit A of the PMIERs) fail to recognize that those loans have already experienced - and survived - unprecedented stress. As a result, the factors overstate the probability of default by borrowers who have remained current on their mortgages during the worst housing downturn since the Great Depression. Also, applying the same factors for all product types overlooks important risk distinctions based on loan product, resulting in factors that are likely too harsh for MIs that insured lower concentrations of higher-risk loans and too lenient for MIs that insured a greater percentage of higher risk loans.
- Non-performing Insured Loans. The factors for non-performing loans (Table 5 in Exhibit A of the PMIERs) do not sufficiently segment the non-performing loan population based on whether a loan has a prior history of delinquency. Historical data show that this attribute has a material impact on the rate at which loans go to claim (referred to as the "roll rate"). Adding this additional granularity will make Table 5 more predictive and dynamic over time by accounting for changes in the delinquent population of loans. *See* our response to question 19 in the Overview of the Draft PMIERs for a further discussion of Table 5, including revisions to the table that we developed based on observations of non-performing loans in Genworth's 2008 vintage book.
- Lower LTV factors. The factors in Tables 1-4 in Exhibit A of the PMIERs group together all loans with LTVs of 85 percent or less. The probability of default and severity of loss on mortgage loans decline as LTVs decrease. Holding factors constant for lower LTV loans fails to recognize this proven correlation between LTV and both frequency and severity, and so results in overstating the required available asset amount for loans with deeper MI coverage or with MI coverage on loans with initial LTVs of less than 85 percent. This failure to recognize the additional risk reduction will materially limit MIs' ability to provide coverage on an important segment of the market. *See* our responses to question 17 of the Overview of the Draft PMIERs for a further discussion of this issue.

Impact of PMIERs on MI Premiums/Borrower Payment.

MIs determine premiums based on their assessment of the risk attributes of a loan and on how much economic capital they should hold to protect against unexpected loss (loss under stress). Historically, MIs have targeted mid-teen returns on capital. These targeted returns recognize the nature of mortgage credit default risk, which is more volatile than other lines of insurance (*e.g.*, life or auto insurance). As with most other businesses, the ultimate objective is to realize returns at or above the MI's cost of capital.

The construct of the asset test in the PMIERs introduces a new element that MIs will need to consider when determining premiums. Specifically, the asset test will require each MI to hold a risk-based required asset amount that is calculated by applying specified factors to its risk in force ("RIF"). The asset test will impact each MI differently based on the risk profile of its insured book and cost of capital. As discussed in detail above and in our response to the questions set forth in the Overview of the Draft PMIERs, Genworth believes that certain flaws in the asset test (*e.g.*, the failure to recognize the impact of seasoning and the lack of recognition for any future premiums) result in a required asset amount that is unnecessarily high, especially with respect to lower FICO and higher LTV loans. Moreover, the asset test, as proposed, will have a pro-cyclical effect. As a result, as proposed, the asset test will create pressure on mortgage insurance premiums that will have the greatest impact on first time homebuyers, low to moderate income borrowers and members of underserved communities.

To calculate the potential impact of PMIERs on MI pricing, Genworth calculated a return on capital for each cohort included in Table 3 in Exhibit A of the PMIERs. To calculate returns, we used standard industry pricing and targeted historical industry mid-teens returns.[7] We note that the assumptions regarding loss ratios and delinquency rates are directionally correct but do not reflect actual experience. Nevertheless, we do not believe that other reasonable assumptions would result in materially different outputs.

Our analysis shows that, given the very high credit profile of mortgage loans being originated today, applying the asset test does not materially impact aggregate returns across a book of business. However, the PMIERs do not impact all cohorts equally, and the outcome of our analysis is largely driven by the historically high concentration of new insurance written on loans with FICO scores at or above 740.

[7] Other assumptions used in our analysis are:
General assumptions:
Average macro-economic forecast
Loss Ratio by Cohort: 621-680 = 30%, 681-740 = 25%, 741-780 = 20%, 780-850 = 15%
Expense Ratio: 20%
Tax Rate: 35%
Pre-Tax Investment Yield: 5%

Additional Assumptions for Non-Performing Loans:
Delinquency Rate by Cohort: 621-680 = 8%, 681-740 = 6%, 741-780 = 4%, 780-850 = 2%
Avg. PMIERs Non-Performing Capital Requirement: 70%
Estimated Expected Reserve: 30%

Returns on lower FICO, higher LTV loans (especially loans with LTVs at or above 90 percent and FICO scores of 680 and below) are materially below historical targeted returns.[8] The impact is compounded by the pro-cyclical effect of the proposed non-performing loan factors set forth in Table 5 in Exhibit A of the PMIERs, which further pressures returns. (The issue of the non-performing loan factors is further discussed above and in our response to question 19 of the Overview of the Draft PMIERs.)

While lower returns on these cohorts may be sustainable in the current pristine credit environment, as mortgage credit begins to ease or if market conditions were to deteriorate, pricing on lower FICO, higher LTV loans could increase by approximately 50 percent, which would have a significant impact for those borrowers who are most sensitive to increases in the cost of home ownership. We note that today, approximately 60 percent of new insurance written by MIs is for loans with FICO scores above 740. This is in stark contrast to the traditional credit mix of approximately 25 percent of loans with FICO scores above 740. Accordingly, as currently proposed, the PMIERs would have a disproportionate impact on first time homebuyers, low to moderate income borrowers and members of underserved communities – creditworthy borrowers who traditionally tend to purchase homes with lower down payments. This dynamic would adversely impact all MIs, not just those with exposure to pre-2009 vintages.

To further illustrate the way that PMIERs could impact affordability for borrowers, we calculated the potential impact on the monthly payment for borrowers with FICO scores between 621 – 680 and an LTV of 95 percent. Table 1 below shows a monthly payment comparison of (1) today's pricing for a loan insured by the FHA; (2) today's pricing of an Enterprise loan with private mortgage insurance; and (3) projected pricing of an Enterprise loan with private mortgage insurance that would result from adoption of the PMIERs as proposed. Table 2 shows the same comparison but assumes that FHFA requires that the Enterprises eliminate current loan level pricing consistent with public input received in connection with the Request for Input on G-fees.[9]

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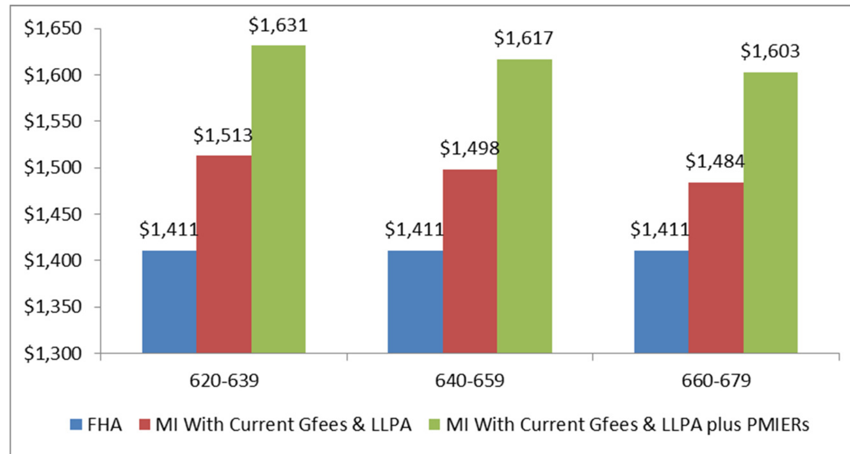
[8] Our analysis is consistent with that of several industry analysts who have opined that the factors set forth in Exhibit A of the PMIERs will result in lower MI returns, especially for insured loans made to creditworthy borrowers at the lower range of the credit spectrum. *See, e.g.,* Mark Zandi, et al., "Putting Mortgage Insurers on Solid Ground", Moody's Analytics, August 2014, available at http://www.urban.org/UploadedPDF/413213-Putting-Mortgage-Insurers-on-Solid-Ground.pdf and Bose George, et al., "Updated Thoughts on PMIERs - We Recommend a Modest Change", Keefe, Bruyette & Woods, July 21, 2014.

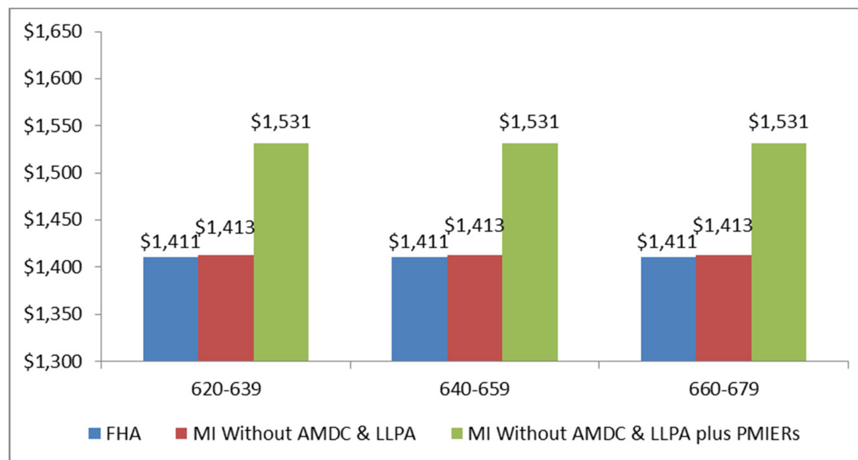
[9] FHFA recently solicited public input on Enterprise pricing. Comments are due concurrently with this Request for Input. Genworth submitted comments to FHFA regarding Enterprise pricing in which we recommended that loan level price adjustments be eliminated or significantly reduced. Other submissions supported our recommendation. Genworth's comment letter is included as Attachment 2.

Table 1.
Borrower Payment Comparison FHA vs. MI vs. MI Plus PMIERs Impact
95 Percent LTV, Current G-fee pricing*



*Assumes $250,000 house price, 30-year term, 3.50 percent pass-through rate, four percent base note rate (before g-fee and LLPA adjustments), five year annualization factor, 100 bp GNMA bond price advantage (resulting in 20 bp rate advantage), annualized g-fee of 42 bps (direct note rate impact), and current AMDC and FICO/LTV based LLPAs. Genworth filed MI premium rates used to determine monthly payment with MI.

Table 2.
Borrower Payment Comparison FHA vs. MI vs. MI Plus PMIERs Impact
95 Percent LTV, Eliminate LLPAs &Adverse Market Fees**



**Assumes $250,000 house price, 30-year term, 3.50 percent pass-through rate, four percent base note rate (before g-fee adjustment), five year annualization factor, 100 bp GNMA bond price advantage (resulting in 20 bp rate advantage), and annual g-fee of 42 bps (direct note rate impact). Genworth filed MI premium rates used to determine monthly payment with MI.

As illustrated in Tables 1 and 2, the impact of PMIERs on borrower monthly payment could be material, and could have significant implications for the broader mortgage market. Many borrowers would logically elect the lower payment option of a loan insured by the FHA, effectively steering borrowers away from private sector insurance to government insurance, thereby distorting markets and increasing taxpayer exposure. We urge FHFA to revise the PMIERs to ensure that they do not result

in consequences that are directly contrary to the important policy objective of balancing safety and soundness and broad and appropriate access to credit.

Operational Scorecard.

As further discussed in our response to questions 6-9 and Attachment 1 to our response to the questions included in the Overview of the Draft PMIERs, the Operational Scorecard includes an extensive list of metrics that would be used to calculate a "score" that would in turn be used to determine an MI's status. The Enterprises have provided no guidance regarding how the metrics would be defined or calculated, the extent of the data needed to support the metrics, how those metrics would in turn be used to calculate a score, how any such score would be used by the Enterprises, or how or when the Scorecard or any component thereof might be revised. There is also no guidance regarding whether the Scorecards will be treated as confidential. This almost absolute lack of transparency means that the Enterprises would have complete discretion to act at will. Notwithstanding the Enterprises' repeated assurances that they will act fairly and reasonably, fairness and reason demand greater clarity and certainty given the power the Enterprises wield over the fate of an MI. Failure to remedy this material flaw would discourage investment in MIs and will render the MI product far less attractive to MI customers. The changes we are proposing in Attachment 1 are intended to provide greater certainty and clarity so that the Operational Scorecard can be a meaningful and valuable tool for the Enterprises and the MIs.

Governance.

As drafted, the PMIERs give the Enterprises almost unfettered discretion to change an MI's status or impose material restrictions on the way an MI conducts business. In most cases, decisions could be made with virtually no advance notice, no clear showing of materiality, and no opportunity to dispute an allegation, to cure an alleged violation or appeal a determination by the Enterprises. Moreover, there are no guidelines regarding how the Enterprises would make decisions, nor are there requirements that decisions be reviewed and authorized by appropriate representatives within the Enterprises and FHFA. Clarity regarding governance is critical to ensure fair application of the PMIERs. Unless this fatal flaw is remedied, investment in the industry will be discouraged and the MI product will be rendered far less attractive to MI customers. For your convenience, we are providing a redlined version of the PMIERs that includes revisions that address our concerns regarding governance. We have also included revisions that address certain technical issues and that otherwise reflect the comments we are providing in this overview and in our responses to the questions included in the Request for Input. The redlined version of the PMIERs is included as Attachment 1 to this response to the Request for Input.

Genworth urges FHFA to take the time necessary to consider the recommendations we provide and the extensive commentary we expect you will receive from other commentators, and to consider publishing a revised draft for a final round of comments if, as we expect, there are significant revisions. Done right, the PMIERs will serve as robust and dynamic standards that will guide the housing market for the foreseeable future. Genworth believes that the MI industry will benefit from the market certainty that will attend the publication of final PMIERs. However, it would be unfortunate to miss this opportunity to fix material flaws simply to meet an arbitrary deadline. We look forward to working with FHFA and the Enterprises to revise the draft PMIERs and to quickly turn our collective efforts to the significant work that will be required to implement the final PMIERs.

Please do not hesitate to contact the undersigned or Carol Bouchner (Carol.Bouchner@genworth.com) if we may be of further assistance.

Yours truly,

Rohit Gupta
President & CEO
Genworth Mortgage Insurance

Responses to Questions Set Forth In Section V, the Overview of the Draft PMIERs

Business Requirements

1. *Scope of Business:*

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?

The PMIERs include requirements for operational policies and procedures, internal audits, Enterprise oversight and risk management policies and procedures that, taken as a whole, will help to ensure that an Approved Insurer will have long-term access to the resources needed to administer its book of business. Incorporating our recommendations regarding the asset test would support an MI business model that is able to invest in the resources necessary to maintain operational excellence. In addition, once revised in accordance with our suggested edits, the provisions included in Chapter Nine, "Failure to Meet Requirements", will create strong incentives for each Approved Insurer to devote sufficient resources to complying with the requirements of the PMIERs.

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?

The asset test will operate to increase the amount of liquid assets an MI must hold if the MI increases its concentration of higher risk loans. If factors are set right for all risk categories, the result will be sufficient resources to pay claims across the spectrum of risk insured by an MI. As we discuss at length in the introduction to our response to the Request for Input and in our response to the questions that follow, Genworth supports the construct of setting factors based on FICO, LTV, vintage and loan types, but we are recommending greater segmentation within those categories. In addition, as we will discuss at length, additive factors for delinquency that do not clearly give effect to seasoning results in an excessively high Required Asset Amount. The asset test must balance the need to ensure sufficient claims paying resources under stress and the need to ensure that borrowers are not burdened with unnecessarily high costs of home ownership. As currently calculated, the Required Asset Amount does not result in that needed balance. Finally, we note that including future premiums (in an amount equal to 210 percent of the prior year earned premiums) in the calculation of available assets as suggested in our response to question 31 will encourage prudent MI pricing because any decrease in premiums would have an immediate impact on an MI's available asset calculation.

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

One general principle of insurance is that risk pooling is an effective way to diversify risk and ensure claims paying adequacy. Given this fundamental principle, Genworth does not believe that the Enterprises should require that higher-risk products be insured through separately funded affiliates. However, such an approach might be an effective and efficient means of capital management for an MI, so there should not be any prohibition on utilizing a separate affiliate.

We note that our response assumes that the factors for all loans and multipliers for higher-risk loans are set appropriately. As discussed in detail in our responses to the questions that follow, we are

recommending revisions to the factors and multipliers to better align them with the actual risk of loss under stress.

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?*
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?*
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?*

Genworth does not believe it is necessary or practicable for the Enterprises to assess the adequacy of each Approved Insurer's risk-adjusted rates of return ("returns"). Returns are a useful metric for equity investors to gauge the value of an investment, but it is not appropriate for the Enterprises to attempt to oversee MI returns. Moreover, there is not a simple formula to measure returns nor is there a consistent way to compare returns among different MIs. Developing a formula that could be applied as an apples-to-apples measure of all MIs would be close to impossible. As counterparties, rather than focus on returns, the Enterprises have appropriately focused in the PMIERs on tracking and evaluating amount of risk an MI has assumed, its ability to manage that risk and the amount of assets available to pay claims.

However, we do believe that having some insight into premiums charged by an MI relative to risk in force ("RIF") would help the Enterprises to evaluate each MI's counterparty strength and would have the added benefit of making MIs more transparent for other investors. Genworth suggests the Enterprises require each MI to report quarterly a new premium to new RIF ratio (one ratio for monthly and annual products and a separate ratio for single premium MI) for flow business.[1] This ratio would serve as a useful indicator that would supplement the asset test by tracking trends in pricing relative to risk that could signal possible shifts in overall risk. This ratio should be simple for each MI to calculate and would be a useful tool for the Enterprises to monitor each MI on an individual basis and relative to its peers. Our suggestion is consistent with Genworth's quarterly public disclosures filed with the SEC, and we recommend that FHFA consider requiring all MIs to make available the same detailed information regarding premiums relative to risk insured.

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?*

Approved Insurers should be required to validate a third-party AUS prior to using the recommendations from the AUS. For the MI to undertake a meaningful validation, however, the AUS owner must provide access to the system's decisions for a comprehensive sample set of loan level data submitted by the MI, must commit to providing the MI with timely and complete information regarding changes to the system and must agree to conduct the validation exercise on a regular basis (perhaps annually). It is Genworth' s current practice to validate every third party AUS on which we rely, including LP and DU, but our

[1] MIs do offer a limited number of other product types, but industry volume in those other products is immaterial, so we believe ratios for monthly/annual and for single premiums are sufficient.

validation is constrained because the Enterprises and other third parties are not willing to conduct the statistical sample set validation that we are recommending. We urge FHFA and the Enterprises to implement this best practice going forward.

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

Genworth recommends adding the following metrics to the Scorecard:

Premium to New Risk in Force Ratio for Monthly and Annual Premium Products
Monthly and Annual Product Premium Rate for New Risk in Force / Monthly and Annual Product Risk in Force at time of Origination

Premium to New Risk in Force Ratio for Single Premium Products
Single Premium Product Rate for New Risk in Force / Single Premium Risk in Force at time of Origination

Early Rescission (less than 36 months) Relief Review Rate
Number of Policies in period reviewed for Early Rescission Relief / Number of Certificates Written in period

Early Rescission Relief Denial Rate
Number of policies denied for Early Rescission Relief / Number of policies reviewed for Early Rescission Relief

7. *How should Operational Performance Scorecard thresholds be determined?*
8. *How should Approved Insurers be rated under the Operational Performance Scorecard? How would Operational Performance Scorecard thresholds be applied?*

Based on past efforts to create and exchange detailed data, we anticipate and recommend strong collaboration between the MIs and the Enterprises to engage in an iterative process to facilitate the development of a final Scorecard, revision process, data dictionary and reporting parameters well in advance of the anticipated June 2015 effective date.

From a governance perspective, Genworth recommends the Enterprises provide target Scorecard performance expectations to each Approved Insurer no later than 180 days prior to the date such target expectations will go into effect. In the event the Enterprises revise the Operational Performance Scorecard, we recommend each Enterprise provide each Approved Insurer with at least 180 days advance notice of such revisions to ensure an opportunity to comment and sufficient time for each approved insurer to implement necessary changes.

With these baseline controls and the enclosed comments and recommendations to the Operational Scorecard Template, Genworth would support publicly releasing the Scorecard following an initial one year non-public calibration period and establishment of a baseline for common understanding of the intent, definitions, expectations, and reasonableness of the resulting process to produce the requested metrics.

A. Newly Approved Insurer Requirements

10. *What would be the impact of the $500 MM requirement for newly Approved Insurers? Should the requirement reflect the start-up costs to scale a competitive mortgage insurance business? Are there other appropriate requirements or controls that should be established to ensure that start-ups are held to more stringent requirements?*

We believe the requirements for newly Approved Insurers, including increased oversight, are appropriate. We support the provision in Section 203 that clarifies that all provisions of the PMIERs apply to new entrants, and given the operational challenges facing a newly Approved Insurer, we encourage the imposition of enhanced management and operational controls for a period of at least three years.

B. 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?*

Section 307 should be revised to require that an Enterprise issue a written response to a request for approval within 60 days of receipt thereof.

C. 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?*

We are not aware of any other circumstance in which a licensed insurance company is mandated to delegate its loss mitigation activities to a third party. Still we recognize that some delegation is an established practice between the Enterprises and MI companies, and we are not recommending ending this existing practice. However, going forward, an MI should have advance notice and an opportunity to comment on proposed retention or liquidation alternatives for which an Enterprise is seeking full delegation. In addition, in the event that an MI determines that its claims payments are increased as a result of delegation, then the obligation to continue delegating should terminate without any adjustment to pricing or other penalty. See our suggested revisions to Section 310 in the redlined version of the PMIERs submitted along with this response to the Request for Input.

D. 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?*

Self-insurance by an established Approved Insurer or affiliate (established being at least 3 years after the approval by the GSE as an Approved Insurer) should be permitted. Alternatively, in the case of commercial insurance, a commercially reasonable deductible significantly higher than the amount

proposed (i.e. $25 million) should be permitted. The $150,000 deductible proposed in the draft PMIERs is not commercially reasonable, and we do not believe any carrier would provide coverage at that amount.

E. Quality Control

14. *What are the relative costs and benefits for Approved Insurers to implement the draft quality control requirements in the PMIERs?*
15. *Do the draft quality control standards present any unintended consequences?*

The draft PMIERs require that both delegated and non-delegated loans be sampled for a similar post-closing review. The requirements for evaluation and re-verification are both valuable and necessary for ensuring the continued high quality of mortgage originations; however, the timing of these reviews should be expanded for non-delegated loans to allow these activities to occur pre-closing. During a non-delegated underwrite, the full loan file is submitted to the MI for underwriting and during that process loans are selected for audit on both a random and discretionary basis for review as required. This process also includes re-verification if applicable. Notwithstanding the provisions of Section 405 that require independent validation for early rescission relief, requiring this same depth of post-closing review that occurred pre-closing is redundant and would incur unnecessary cost and process challenges for both the MI and its lender partners.

Re-verification of loan information provided to the MI for non-delegated underwriting is an important tool to ensure that a loan closed and was delivered to the agencies as expected. We suggest an efficient way to conduct this data re-verification is to include pertinent loan data in a loan level reconciliation file to be shared with the MIs. With this file, the MI can compare its underwriting data for both delegated and non-delegated loans to the Enterprise loan delivery data and perform additional reviews on any outliers. The combined process of higher level pre-closing review for non-delegated loans and a post-closing data re-verification using the GSE reconciliation file would continue to ensure the origination and insurance of high quality underwritten files.

As a practical matter, we are not able to conduct a post-closing review of non-delegated loans that have been declined for mortgage insurance. If we do not insure the loan, we will not have the right to require a lender to submit a loan file to us for review.

The requirement to complete the QA reviews within 120 days of closing will require a change from our current practice of sampling delegated lenders over a three month period to smooth out monthly volume and process variation to a practice of conducting QA reviews one month after closing. This will result in more loans having to be sampled than we think is necessary to have a robust QA process, leading to increased costs without any meaningful improvement in audit accuracy. This will have a disproportionate impact on smaller lenders that submit lower volumes to the MI. We recommend a timeline that requires reviews to be completed no later than 12 months following the insurance effective date.

F. *Financial Requirements*

In addition to the responses to the questions 16 – 25 below, please see the redlined revisions to Exhibit A of the PMIERs included with our submission of this Request for Information. Those revisions reflect the suggestions we discuss below.

Grids

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

Seasoning.

PMIERs aggregate all loans originated in 2009 and after into one table and assign a capital factor by FICO and LTV category. The design does not recognize the positive impact that seasoning has in reducing the probability of default for older vintages or the benefits of building an insurance portfolio diversified through time. It overstates the amount of required capital for these books and could serve to limit an MI's ability to insure prudent new business; constrain access to credit; and exert more pressure on housing markets, all outcomes that are contrary to the best interests of the Enterprises as our counterparties. The inclusion of a seasoning factor by number of payments made that adjusts the current table for 2009 and after vintages properly accounts for temporal diversification, brings greater clarity to the treatment of future books of business, and enables MI companies to better plan for their capital needs over time.

The Enterprises have suggested that the impact of seasoning is "embedded" in the asset test, but because we have not been provided with details on how the model has been constructed, we cannot determine whether the impact of seasoning is appropriately recognized. In any event, separately identifying the seasoning factors would make the asset test more transparent, and would enable MIs to better plan for their capital needs over time.

As a new vintage of policies age, losses expected at time of origination are reallocated from an equal weighting on all loans to a greater weighting on delinquent loans through the setting of reserves. As such, a greater proportion of future expected losses are borne by delinquent loans and as a result the factor applied to current loans should decrease. The present PMIER structure increases factors for delinquent loans, but fails to make the corresponding reduction in the factors on the remaining current loans. Table 1 is an example of the current treatment of a 760 FICO/95 percent LTV loan for vintage years 2009 through 2013. Without accounting for seasoning, capital grows through time creating a pro-cyclical capital regime. Risk in force (RIF) is included for illustrative purposes and delinquency rates reflect an estimate of Genworth's performance at year end 2014.

Table 1: Present Treatment Of Post-2008 Vintages As They Season (760 FICO/95 LTV)

Capital Factor for Current Loans760 FICO/95 LTV Loan: 6.0%

Assumed Capital Factor for Delinquent loan: 75%

Vintage	Seasoning	Total RIF	Capital At T=0	Dlq Rate	Dlq Capital	Current Capital	Current Factor	Total Capital at Present
a	b	c	d	e	f = c* e*75%	g = c* (1-e)*6%	h = g/ (c*(1-e))	i = f+g
2009	>60	$ 20.0	$ 1.2	2.0%	$0.3	$1.2	6.0%	$1.5
2010	49 - 60	$ 50.0	$ 3.0	1.2%	$0.5	$3.0	6.0%	$3.4
2011	37 – 48	$ 70.0	$ 4.2	0.8%	$0.4	$4.2	6.0%	$4.6
2012	25 - 36	$ 200.0	$ 12.0	0.3%	$0.5	$12.0	6.0%	$12.4
2013	13 - 24	$ 310.0	$ 18.6	0.1%	$0.2	$18.6	6.0%	$18.8
2014	0 - 12	$ 350.0	$ 21.0	0.0%	$0.0	$21.0	6.0%	$21.0
Total		$1,000	$ 60.0		$1.9	$59.9		$61.7

Table 2 is an example of an improved methodology to account for seasoning by appropriately reallocating estimated capital for policies as they age. It generates a seasoning factor that should be applied to the current loan factors for post-2008 vintages. Applying the factors as proposed in Table 2 enables MI companies to plan for capital needs of their portfolios as loans age and bring transparency to the required capital for new vintages. The application of seasoning factors makes the PMIERs table for post-2008 loans dynamic by giving guidance to capital required as the portfolio rolls forward.

Table 2: Improved Treatment Of Post-2008 Vintages As They Season (760 FICO/95 LTV)

Capital Factor for 760 FICO/95 LTV Loan: 6.0%

Assumed Capital Factor for Delinquent loan: 75%

Vintage	Seasoning	Total RIF	Capital At T=0	Dlq Rate	Dlq Capital	Current Capital	Current Factor	Seasoning Factor
a	b	c	d	e	f = c*e* 75%	g = d-f	h = g/ (c*(1-e))	i = h/6%
2009	>60	$ 20.0	$ 1.2	2.0%	$0.3	$0.9	4.6%	0.77
2010	49 - 60	$ 50.0	$ 3.0	1.2%	$0.5	$2.6	5.2%	0.86
2011	37 – 48	$ 70.0	$ 4.2	0.8%	$0.4	$3.8	5.4%	0.91
2012	25 - 36	$ 200.0	$ 12.0	0.3%	$0.5	$11.6	5.8%	0.97
2013	13 - 24	$ 310.0	$ 18.6	0.1%	$0.2	$18.4	5.9%	0.99
2014	0 - 12	$ 350.0	$ 21.0	0.0%	$0.0	$21.0	6.0%	1.00
Total		$1,000	$ 60.0		$1.9	$58.1		

A timely payment history indicates the willingness of a borrower to remain in a home. Not only does seasoning reallocate required capital between current and delinquent loans, it should recognize that the probability of default also decreases as equity accumulates. The draft PMIER table for post-2008 vintages assigns a capital factor based upon original LTV. Older vintages, however have experienced

positive home price appreciation since Q1 2011 and therefore should benefit over newly originated policies.

Since 2011, home prices have increased at a greater rate than their long term average of approximately three to four percent for the Purchase-Only and All Transactions Indices, respectively. For illustrative purposes, the following table assumes three percent growth per year from origination, a more typical trend than experienced through the recent recession. The table does not account for additional equity growth due to loan amortization. This may reduce factors for newer vintages, but older vintages reach the floor capital factor for a LTV<85 percent through home price appreciation alone.

Table 3: Seasoning Factors Based Upon Equity Growth at 3.0% Per Year

Capital Factor for 760 FICO/95 LTV Loan: 6.0%

(PMIER Factors Based Upon Interpolation By Effective LTV)

Vintage	Age	Cumulative HPA	Effective LTV	PMIER Factor	Seasoning Factor
2009	5	15.9%	82%	2.50%	0.42
2010	4	12.6%	84%	2.50%	0.42
2011	3	9.3%	87%	3.20%	0.53
2012	2	6.1%	90%	4.30%	0.72
2013	1	3.0%	92%	5.06%	0.84
2014	0	0.0%	95%	6.00%	1.00

There is precedent for the application of seasoning factors by international regulators and industry data provides additional support for inclusion into the PMIERs. Both Australia and Canada recognize seasoning benefits in their risk based capital regimes. Table 4 summarizes these factors.

Table 4: International Risk Based Capital Regimes Treatment of Seasoning

Canada Seasoning Factors	
Age (yrs)	Seasoning Factor (%)
< 1	87
1-2	100
2-3	98
3-4	91
4-5	70
5-6	49
6-7	27
7-8	15
8-9	7
9-10	4
10+	0

Australia Seasoning Factors	
Age (yrs)	Seasoning Factor (%)
< 3	100
3-5	75
5-10	25
>10	5

Finally, two studies on MI industry data support the inclusion of a benefit for loan seasoning. First, in Genworth's October 2012 comment letter on proposed changes to bank capital rules, we analyzed loans insured by MICA member companies as of June 2007, looking at actual performance data for those loans through June 2012. The mortgage insurance industry data clearly demonstrates that the probability of claim decreases the longer a loan remains outstanding. When insured loans are segmented, the following relationship between age and the probability of claim is observed:

Age	Probability of Claim
0-<3 Years	Highest probability of going to claim
3-<5 Years	50% as likely to go to claim as 0-3 year loans
5-<10 Years	35% as likely to go to claim as 0-3 year loans
10+ Years	10% as likely to go to claim as 0-3 year loans

Second, a coalition of MI companies commissioned a study of performance for policies issued between 1995 and 2012. While the work is still preliminary, the draft results show evidence of seasoning benefit as loans age. Table 5 indicates results for never delinquent loans, a close proxy to the current loan table in the draft PMIERs.

Table 5: Industry Study on MI Industry Data (Never Delinquent Loans)

Seasoning	Factor
61 - 72	0.75
49 - 60	0.77
37 – 48	0.78
25 - 36	0.84
13 - 24	0.91
0 - 12	1.00

There is strong support for inclusion of a seasoning factor to differentiate vintages of policies written post-2008. The inclusion of a factor applied to the post-2008 table improves capital planning for MI companies and it recognizes the benefits of diversification across time. Seasoning benefits can be attributed to both reallocations of future losses from new loans to delinquent loans, to home price appreciation, and amortization. A precedent for recognition of seasoning has been set by international regulators and is supported by industry data studies.

Table 6 summarizes three methods reviewed in this section. A weighting is given to each method to generate a recommendation. A higher weighting is given to MI industry data followed by the factors justified through reallocation of capital between current and delinquent loans. A lesser weighting is given to home price appreciation as that may not apply in all circumstances.

Table 6: Recommended Seasoning Factors

	Industry Data 1995-2012	Reallocation Analytic	HPA & Amortization	Recommended Factor
Age	50%	40%	10%	-
>60	0.75	0.77	0.42	0.72
49 - 60	0.77	0.86	0.42	0.77
37 – 48	0.78	0.91	0.53	0.81
25 - 36	0.84	0.97	0.72	0.88
13 - 24	0.91	0.99	0.84	0.94
0 - 12	1.00	1.00	1.00	1.00

Factors for 2005-2008 Vintages.

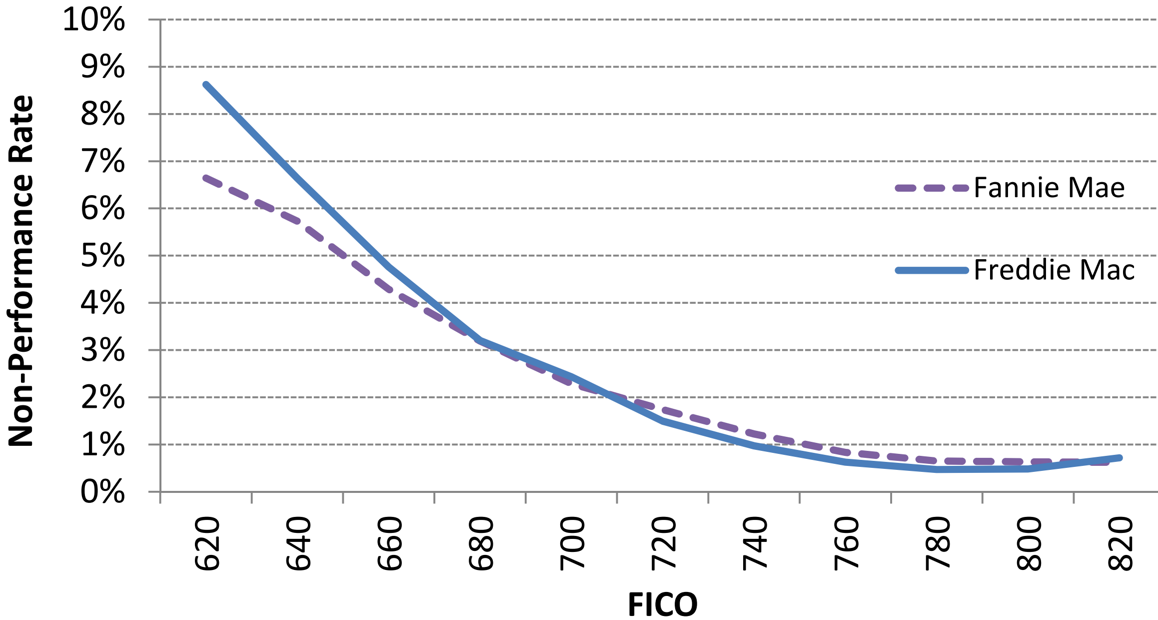
It appears that the factors for performing loans in the 2005 – 2008 vintages (Table 2) were developed based on high risk, poorly underwritten loans that went to claim early. These factors are now being applied to the remaining, lower risk loans that have already experienced and survived unprecedented stress. As a result, the factors overstate the probability of default by borrowers who have remained current on their mortgages during the worst housing downturn since the Great Depression. Also, applying the same factors for all product types overlooks important risk distinctions based on loan product, resulting in factors that are likely too harsh for MIs that insured lower concentrations of higher-risk products.

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?*

Genworth recommends more granular LTV and credit score buckets as further discussed below.

Credit score classifications:

As demonstrated in the chart below, historical Enterprise data from book years 1999-2002 shows that there is a clear differential in performance as credit scores change in 20 point increments. The PMIERs groupings are too large to capture this differentiation.



* Non-Performance is defined as the earliest of 180 days delinquent, third party sale, short sale, deed-in-lieu, or REO acquisition. Data based on 2.9 million loans for Fannie Mae and 2.5 million loans for Freddie Mac originated from 1999 to 2002 with performance data through June 2013 from the publicly available data sets (fully amortizing, fixed rate, full doc, 30-year loans, etc. Please see Enterprise documentation for other data filter details.)

Credit score classifications:

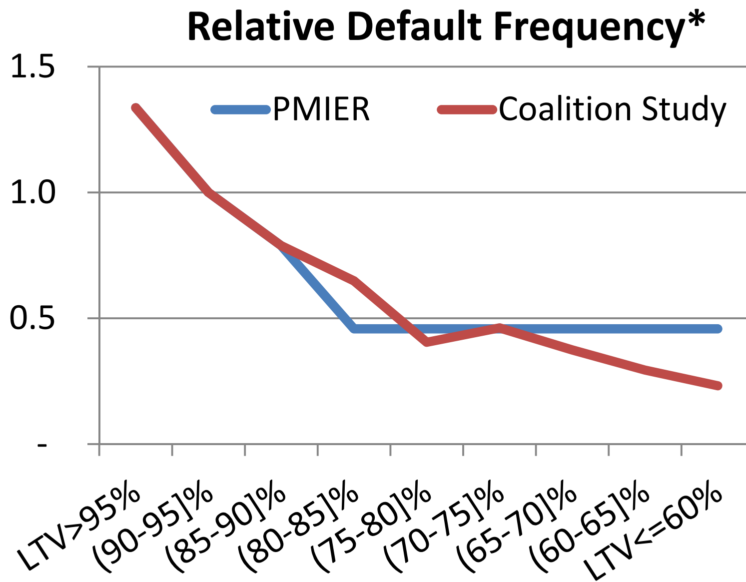
Based on this data, additional credit score classifications should be included in Tables 1 – 4.. The classifications we propose below are designed to better reflect historical performance experience without adding undue complexity:

Credit Score Classifications

Current	Genworth Proposed
<= 620	<= 620
621 – 680	621 – 640
681 – 740	641 – 660
741 – 780	661 – 680
781 – 850	681 – 700
	701 – 720
	721 – 740
	741 – 760
	761 – 780
	781 – 850

LTV Granularity:

The current LTV groupings are appropriate for LTVs from 85 percent and above. However, MIs have insured and may again insure policies at 80 percent and below LTVs, including through risk share transactions with the Enterprises. Performance data from a study commissioned by a coalition of MI companies on policies issued from 1995 – 2012 shows clear evidence of a lower default rate for LTVs below 80 percent.



* Relative to 95% LTV

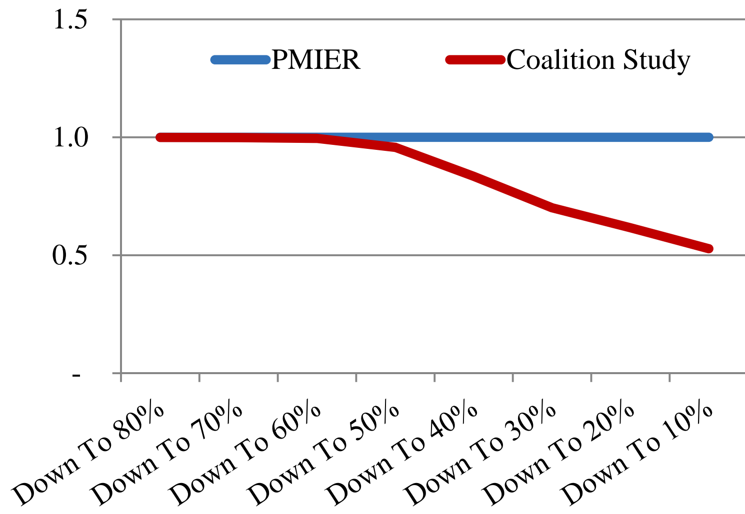
The current tables would unnecessarily penalize lower LTV loans as all loans with LTVs <=85 percent LTV are grouped together. Genworth recommends additional LTV bands with adjusted factors that reflect this lower default frequency as follows:

LTV Groupings

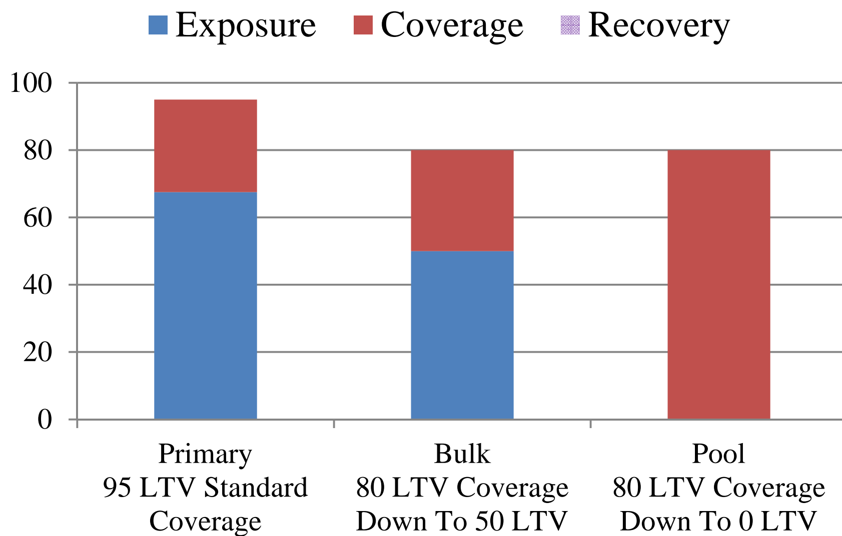
Current	**Proposed**
LTV <= 85	LTV <= 60
85 < LTV <=90	60 < LTV <=65
90 < LTV <=95	65 < LTV <=70
LTV > 95	70 < LTV <=75
	75 < LTV <=80
	80 < LTV <=85
	85 < LTV <=90
	90 < LTV <=95
	LTV > 95

1) Severity Adjustment

The same performance study referenced above also indicates evidence of lower severity for LTV <80 percent. For 100 percent coverage especially, where losses are covered down to zero LTV, severities are significantly lower given a higher likelihood of recovery.



To account for this, Genworth recommends loss factors that account for not only lower frequency but also lower severity. To accomplish this, we do not recommend a modification to the tables but instead an adjustment of the Risk in Force applied to the tables (after having increased the number of LTV groups as described above). The calculation for loan level risk for policies would be changed to the lesser of loan level coverage or 50 percent. This retains the RIF on all primary loans with the Enterprises' standard MI coverage levels, but allows for the deeper coverages used in some transactions to be properly accounted for.



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

We do not recommend changes to Table 4 related to HARP loans.

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

The factors for non-performing loans (Table 5 in Exhibit A of the PMIERs) do not sufficiently segment the non-performing loan population based on whether a loan has a prior history of delinquency. Historical data show that both number of missed payments and prior delinquency history have a material impact on the rate at which loans go to claim (referred to as the "roll rate"). Adding this additional granularity in accordance with the proposed tables set forth below will make Table 5 more predictive and dynamic over time by accounting for changes in the delinquent population of loans.

Proposed Table 5: Non-performing Insured Loans

Delinquency Status	First Time Delinquent	Repeat Delinquent
2 – 3 Missed monthly payments, No Claim Filed	69%	44%
4 – 5 Missed monthly payments, No Claim Filed	83%	59%
6 - 11 Missed monthly payments, No Claim Filed	90%	70%
>=12 Missed monthly payments, No Claim Filed	98%	77%
Pending Claims	106%	106%

The derivation of non-performing loan factors is based upon an analysis of delinquent loan experience between 2008 Q1-Q4. The delinquent inventory of this period seasoned through the worst of the recent housing recession. Though the experience observed during this crisis was amplified by poor underwriting and non-standard product which did not meet the eligibility criteria for mortgage insurance, for conservatism, claim rates were estimated without rescissions. Rescissions were treated as ineligible loans and removed from the observations both in the numerator and denominator to calculate a claim rate on resolved loans (claim paid + paid-off). This resulted in claim rate factors that were significantly higher than those actually realized. Though higher in the last recession, rescissions for misrepresentation and fraud occurred prior to this at a rate of ~5% of claims paid. Since the current delinquent inventory is made up primarily of seasoned loans that have already been investigated, no material future rescissions are contemplated and therefore the 5% was omitted from the proposed factors.

Loans from the 2008 inventory that remain delinquent today were developed to ultimate using the Genworth loan level model based on Andrew Davidson & Co, which better accounts for the current status and transition of loans that weather the early periods of stress. Loans from these vintages that are current today were developed to ultimate using the tables in the draft PMIERs. The resulting frequencies were applied to RIF as of March 31, 2014 and a stress severity of 110% (adjusted slightly by delinquency category) was used to calculate the numbers in the above tables.

Loans undergoing delinquency for the first time exhibit higher transition rates to claim. The proportion of first time to repeat delinquencies has also changed over time. Therefore, it is important to differentiate

the non-performing loan factors to account for this difference. Prior to the recession, first time delinquent loans made up 50% of the delinquent inventory. In December 2013, that percentage has declined to 38%. Observed experience must be adjusted for this change in weighting.

Times Delinquent	December 2007	December 2013
First Time	50%	38%
Repeat	50%	62%

Not only did the delinquent inventory prior to the recession have a higher proportion of first time delinquencies, it was primarily made up of new, unseasoned loans. The average age prior to the recession was 47 months versus 93 months today. Delinquent loans in the current population have weathered a significant stress and early delinquencies especially have demonstrated a willingness to pay over that period. There has not been a prior period of a stress occurring so recently after another one and we therefore did not observe experience to differentiate the response rates of seasoned loans to a second stress. It is believed, however, that based on payment history to date, the response would be lower.

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

PMIERs aggregate all loans originated in 2009 and after into one table and assign a capital factor by FICO and LTV category. The design does not recognize the positive impact that seasoning has in reducing the probability of default for older vintages or the benefits of building an insurance portfolio diversified through time. It overstates the amount of required capital for these books and could serve to limit an MI's ability to insure prudent new business; constrain access to credit; and exert more pressure on housing markets, all outcomes that are contrary to the best interests of the Enterprises as our counterparties. The inclusion of a seasoning factor by number of payments made that adjusts the current table for 2009 and after vintages properly accounts for temporal diversification, brings greater clarity to the treatment of future books of business, and enables MI companies to better plan for their capital needs across multiple future scenarios.

The Enterprises have suggested that the impact of seasoning is "embedded" in the asset test, but because we have not been provided with details on how the model has been constructed, we cannot determine whether the impact of seasoning is appropriately recognized. In any event, separately identifying the seasoning factors would make the asset test more transparent, and would enable MIs to better plan for their capital needs over time.

As a new vintage of policies age, losses expected at time of origination are reallocated from an equal weighting on all loans to a greater weighting on delinquent loans through the setting of reserves. As such, a greater proportion of future expected losses are borne by delinquent loans and as a result the factor applied to current loans should decrease. The present PMIER structure increases factors for delinquent loans, but fails to make the corresponding reduction in the factors on the remaining current loans. Table 1 is an example of the current treatment of a 760 FICO/95 LTV loan for vintage years 2009 through 2013. Without accounting for seasoning, capital grows through time creating a pro-cyclical capital regime. Risk in force (RIF) is included for illustrative purposes and delinquency rates reflect an estimate of Genworth's performance at year end 2014.

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2011	37 – 48	$ 70.0	$ 4.2	0.8%	$0.4	$4.2	6.0%	$4.6
2012	25 - 36	$ 200.0	$ 12.0	0.3%	$0.5	$12.0	6.0%	$12.4
2013	13 - 24	$ 310.0	$ 18.6	0.1%	$0.2	$18.6	6.0%	$18.8
2014	0 - 12	$ 350.0	$ 21.0	0.0%	$0.0	$21.0	6.0%	$21.0
Total		$1,000	$ 60.0		$1.9	$59.9		$61.7

Table 2 is an example of an improved methodology to account for seasoning by appropriately reallocating estimated capital for policies as they age. It generates a seasoning factor that should be applied to the current loan factors for post-2008 vintages. Applying the factors as proposed in Table 2 enables MI companies to plan for capital needs of their portfolios as loans age and bring transparency to the required capital for new vintages. The application of seasoning factors makes the PMIERs table for post-2008 loans dynamic by giving guidance to capital required as the portfolio rolls forward.

Table 2: Improved Treatment Of Post-2008 Vintages As They Season (760 FICO/95 LTV)

Capital Factor for 760 FICO/95 LTV Loan: 6.0%

Assumed Capital Factor for Delinquent loan: 75%

Vintage	Seasoning	Total RIF	Capital At T=0	Dlq Rate	Dlq Capital	Current Capital	Current Factor	Seasoning Factor
a	b	c	d	e	f = c*e* 75%	g = d-f	h = g/ (c*(1-e))	i = h/6%
2009	>60	$ 20.0	$ 1.2	2.0%	$0.3	$0.9	4.6%	0.77
2010	49 - 60	$ 50.0	$ 3.0	1.2%	$0.5	$2.6	5.2%	0.86
2011	37 – 48	$ 70.0	$ 4.2	0.8%	$0.4	$3.8	5.4%	0.91
2012	25 - 36	$ 200.0	$ 12.0	0.3%	$0.5	$11.6	5.8%	0.97
2013	13 - 24	$ 310.0	$ 18.6	0.1%	$0.2	$18.4	5.9%	0.99
2014	0 - 12	$ 350.0	$ 21.0	0.0%	$0.0	$21.0	6.0%	1.00
Total		$1,000	$ 60.0		$1.9	$58.1		

A timely payment history indicates the willingness of a borrower to remain in a home. Not only does seasoning reallocate required capital between current and delinquent loans, it should recognize that the probability of default also decreases as equity accumulates. The draft PMIER table for post-2008 vintages assigns a capital factor based upon original LTV. Older vintages, however, have experienced

positive home price appreciation since Q1 2011 and therefore should benefit over newly originated policies.

Since 2011, home prices have increased at a greater rate than their long term average of approximately three to four percent for the Purchase-Only and All Transactions Indices, respectively. For illustrative purposes, the following table assumes 3 percent growth per year from origination, a more typical trend than experienced through the recent recession. The table does not account for additional equity growth due to loan amortization. This may reduce factors for newer vintages, but older vintages reach the floor capital factor for a LTV<85 percent through home price appreciation alone.

Table 3: Seasoning Factors Based Upon Equity Growth at 3.0% Per Year

Capital Factor for 760 FICO/95 LTV Loan: 6.0%

(PMIER Factors Based Upon Interpolation By Effective LTV)

Vintage	Age	Cumulative HPA	Effective LTV	PMIER Factor	Seasoning Factor
2009	5	15.9%	82%	2.50%	0.42
2010	4	12.6%	84%	2.50%	0.42
2011	3	9.3%	87%	3.20%	0.53
2012	2	6.1%	90%	4.30%	0.72
2013	1	3.0%	92%	5.06%	0.84
2014	0	0.0%	95%	6.00%	1.00

There is precedent for the application of seasoning factors by international regulators and industry data provides additional support for inclusion into the PMIERs. Both Australia and Canada recognize seasoning benefits in their risk based capital regimes. Table 4 summarizes these factors.

Table 4: International Risk Based Capital Regimes Treatment of Seasoning

Canada Seasoning Factors	
Age (yrs)	Seasoning Factor (%)
< 1	87
1-2	100
2-3	98
3-4	91
4-5	70
5-6	49
6-7	27
7-8	15
8-9	7
9-10	4
10+	0

Australia Seasoning Factors	
Age (yrs)	Seasoning Factor (%)
< 3	100
3-5	75
5-10	25
>10	5

Finally, two studies on MI industry data support the inclusion of a benefit for loan seasoning. First, in Genworth's October 2012 comment letter on proposed changes to bank capital rules, we analyzed loans insured by MICA member companies as of June 2007, looking at actual performance data for those loans through June 2012. The mortgage insurance industry data clearly demonstrates that the probability of claim decreases the longer a loan remains outstanding. When insured loans are segmented, the following relationship between age and the probability of claim is observed:

Age	Probability of Claim
0-<3 Years	Highest probability of going to claim
3-<5 Years	50% as likely to go to claim as 0-3 year loans
5-<10 Years	35% as likely to go to claim as 0-3 year loans
10+ Years	10% as likely to go to claim as 0-3 year loans

Second, a coalition of MI companies commissioned a study of performance for policies issued between 1995 and 2012. While the work is still preliminary, the draft results show evidence of seasoning benefit as loans age. Table 5 indicates results for never delinquent loans, a close proxy to the current loan table in the draft PMIERs.

Table 5: Industry Study on MI Industry Data (Never Delinquent Loans)

Seasoning	Factor
61 - 72	0.75
49 - 60	0.77
37 – 48	0.78
25 - 36	0.84
13 - 24	0.91
0 - 12	1.00

There is strong support for inclusion of a seasoning factor to differentiate vintages of policies written post-2008. The inclusion of a factor applied to the post-2008 table improves capital planning for MI companies and it recognizes the benefits of diversification across time. Seasoning benefits can be attributed to both reallocations of future losses from new loans to delinquent loans, to home price appreciation, and amortization. A precedent for recognition of seasoning has been set by international regulators and is supported by industry data studies.

Table 6 summarizes three methods reviewed in this section. A weighting is given to each method to generate a recommendation. A higher weighting is given to MI industry data followed by the factors justified through reallocation of capital between current and delinquent loans. A lesser weighting is given to home price appreciation as that may not apply in all circumstances.

Table 6: Recommended Seasoning Factors

	Industry Data 1995-2012	Reallocation Analytic	HPA & Amortization	Recommended Factor
Age	50%	40%	10%	-
>60	0.75	0.77	0.42	0.72
49 - 60	0.77	0.86	0.42	0.77
37 – 48	0.78	0.91	0.53	0.81
25 - 36	0.84	0.97	0.72	0.88
13 - 24	0.91	0.99	0.84	0.94
0 - 12	1.00	1.00	1.00	1.00

<u>Factors for 2005-2008 Vintages.</u>

It appears that the factors for performing loans in the 2005 – 2008 vintages (Table 2) were developed based on high risk, poorly underwritten loans that went to claim early. These factors are now being applied to the remaining, lower risk loans that have already experienced and survived unprecedented stress. As a result, the factors overstate the probability of default by borrowers who have remained current on their mortgages during the worst housing downturn since the Great Depression. Also, applying the same factors for all product types overlooks important risk distinctions based on loan product, resulting in factors that are likely too harsh for MIs that insured lower concentrations of higher-risk products. See the discussion of seasoning in our response to question 16.

21. How often should the grids be updated?

As discussed in Question 16, loan seasoning is a material factor in the probability that a loan will go into default, and the grids should be revised to recognize the impact of loan seasoning on probability of default for newer books, beginning with the 2009 vintage. Mortgage loans experience lower default rates as the loan balance amortizes, equity builds in the property and borrowers make timely payments following origination. Once appropriate revisions are made to incorporate seasoning factors, the grids should only need updating to reflect material changes in the housing market.

Regarding the 2005 – 2008 books, the factors were developed based on a significant stress period. As these books continue to season and move further away from the stress period, we would expect that the factors will need to be adjusted down annually until such time as the remaining population in those vintages is immaterial and those vintage specific factors can be removed from the PMIERs.

If changes are needed to the Tables in Exhibit A of the PMIERs, we recommend that proposed changes should be published pursuant to a public notice and comment period before final changes are published. The implementation date for those final changes should be no sooner than 90 days following publication.

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

In addition to the seasoning issues discussed in Question 21, borrower paid loans within the 2005 – 2008 books are approaching the mandated automatic cancellation threshold (under the Homeowner's Protection Act) of 78 percent LTV. As a result the remaining life of these books will be decreasing, significantly impacting their potential losses. We recommend that this should be taken into account when calculating the grids and considering potential updates to them.

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

We are concerned that, as a practical/operational matter, it will be extremely difficult to determine that a loan is exempt from the factors in Table 3A of the PMIERs based on whether that loan is eligible for sale to the Enterprises or meets the requirement of either Enterprise's Selling Guide. Without an underwriting decision from LP or DU, whether a loan is eligible for sale or whether it meets the requirements of a Selling Guide are decisions that rely on an underwriter's judgment, and that can be challenged at any time by either of the Enterprises. While some underwriting guidelines, such as LTV or credit score, are relatively straightforward, others, such as DTI, involve some element of underwriter discretion. The issue is exacerbated for delegated loans because we may not receive supporting data and instead rely on lender representations and warranties. In addition, our ability to assess things such as Interested Party Contributions, applicability of reserve requirements for principal residence pending conversion (something the GSEs even require to be assessed manually), as well as specific borrower credit factors, collateral factors, etc. are limited. In addition to the issues related to "soft" guidelines, it is not feasible to determine the eligibility / salability that may have existed at the time of origination for a given loan. Guidelines are fluid and the Enterprises regularly make changes to both "hard" and "soft" guidelines, oftentimes with the lender having to manually apply certain overlays to the applicable AUS before the change is updated into the system.

Given the magnitude of the proposed multipliers (as much as 3.00), MIs will be forced to either require lenders to incur the cost of submitting every loan that might fall within Table 3A of the PMIERs to LP or DU for a decision, or to be overly conservative in our underwriting to ensure that our determination will not be challenged by one of the Enterprises. Either way, the result is a material increase in cost that ultimately will be borne by borrowers.

With respect to specific Table 3A factors and as further discussed in our response to question 25, Genworth loan level performance data show that the multiplier for DTIs above 43 percent should be significantly lower than 2.00. Lenders continue to originate well underwritten, historically strong performing loans particularly in the non-Enterprise jumbo space. As an example, a $650,000 loan in Boston, Los Angeles or New York would not be eligible for sale to an Enterprise and might fall into one or more of the loan characteristics included in Table 3A, but might be prudently underwritten and expected to perform well. When working with high net worth / high income borrowers, lenders utilize other characteristics, such as the amount of assets and residual income (the income remaining to the borrower after considering all debts). The PMIERs proposal related to DTI ignores compensating factors and would force MIs to hold an excessive amount of capital or insure these loans in an alternative entity.

Other multipliers may be similarly flawed. For example, our experience suggests that negative amortization loans are high risk products, yet they have only been assigned a multiplier of 1.50, while non-owner occupied loans, and in particular second homes, which we believe are relatively lower risk, have a multiplier of 3.00.

Genworth urges the Enterprises to work with the MIs to conduct a thorough analysis of loan level data regarding high risk loans. Once we have greater clarity on the multipliers, we believe the MIs and the Enterprises will be able to work together on a solution that is transparent and that does not present operational challenges or introduce the added cost of requiring an LP or DU decision on every insured loan.

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?*

We support the use of a limited number of multipliers for higher risk attributes such as very high DTIs, assuming those factors are based on meaningful historical loan performance data. In addition, we agree that other compensating factors are often taken into consideration when underwriting a loan, but we believe that incorporating compensating factors into static risk multipliers will be an extremely complex undertaking. In light of the importance – and complexity – of these issues, we strongly recommend that the Enterprises work with the MIs to conduct a thorough analysis of loan level data regarding high risk loans, higher DTI loans and compensating factors. As further discussed in the following question, our experience demonstrates that the current multiplier of 2.00 is too high for all DTIs above 43 percent.

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?*

We support the use of a limited number of multipliers for higher risk attributes such as very high DTI, assuming those factors are based on meaningful historical loan performance data. Our experience suggests that the current multiplier of 2.00 is too high for all DTIs above 43 percent. We recommend splitting loans above 43 percent DTI into the following three groups:

43.01-50.00
50.01-60.00
60.01 and greater

We would recommend that the Enterprises work with the MIs to conduct a thorough analysis of loan level data to set the appropriate multipliers for these DTI cohorts and other high risk features.

<u>*Macroeconomic Scenarios*</u>

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?*

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?*
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?*

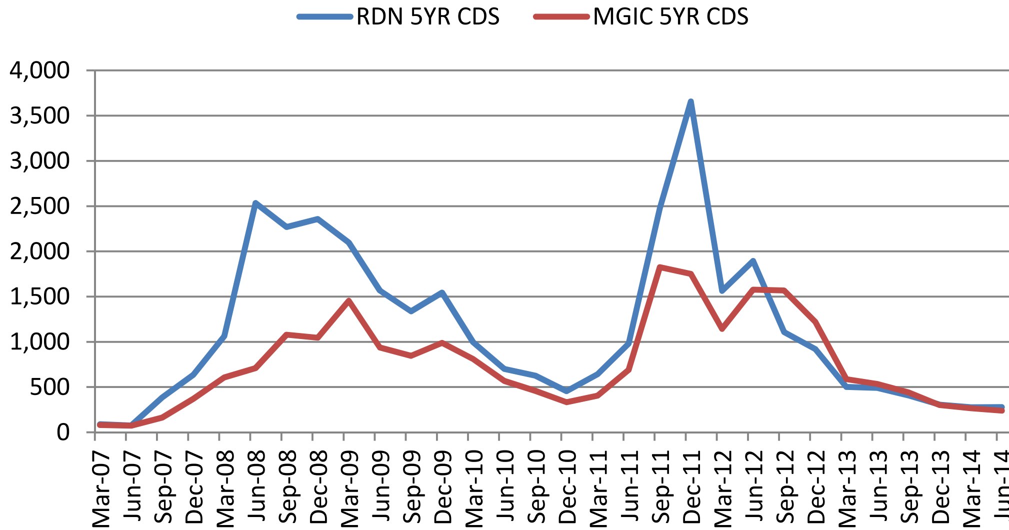
The asset test sets factors for loan performance under stress that were developed based on the Federal Reserve's Comprehensive Capital Analysis and Review ("CCAR"), which is designed to measure capital adequacy under stress for diversified banks, not for monoline mortgage guaranty insurers. As a result, the Enterprises have modified CCAR in an attempt to reflect the MI business model of insuring against long tail housing risk in diverse regional markets. We are deeply concerned that the way the Enterprises have modified CCAR does not adequately account for the material differences between banks and MIs. In particular:

- The nature of risk assumed by a monoline mortgage insurer is fundamentally different from that of a commercial bank, and that difference makes it difficult to apply CCAR standards to MI companies without substantial, complex modifications. MI companies are primarily affected by home price patterns which develop over longer periods of time. Declines are driven by imbalances between supply and demand for housing and markets recover when this balance has again been reached. In order to function properly, the MI model must be designed to act counter cyclically - building capital during strong markets in order to use a portion of that capital during downturns while continuing to write new business to support the housing recovery.
- CCAR shows little sensitivity to past home price declines in forecasting future adverse scenarios. This has the effect of subjecting MI portfolios to repeated adverse stress that is truly unprecedented, and adds to the pro cyclical nature of the test. For example, the PMIERs would have required the MIs to hold assets sufficient to withstand 20 percent downturn in house prices beginning in 2012 even though house prices had already declined 33 percent since 2007 for a total national peak to trough decline of 46 percent.[2] Prices have since increased 17 percent over this period as supply and demand reached equilibrium. The insensitivity of the CCAR forecasts to the past pattern of home price increase or decline and the balance between supply and demand at the time of the test has a material adverse impact on the model outcomes.

  Instead of properly allowing the MI model to operate counter cyclically, as designed, the asset test will force MI companies to unnecessarily retain capital in down turns as access to more capital for new writings will be limited. This reality will restrict access to credit and exacerbate a housing decline at a time when more access is needed. This dynamic is illustrated by the comparison of CDS spreads over time for two monoline MIs set forth below. Note the material increase in CDS spreads, which would translate to an increase in the cost of capital, during two recent stress events: (1) 2008 increase in spreads from ~ 100 bps to ~1000 bps (MGIC) or 2500 bps (RDN), which was largely driven by the housing market crisis, and (2)

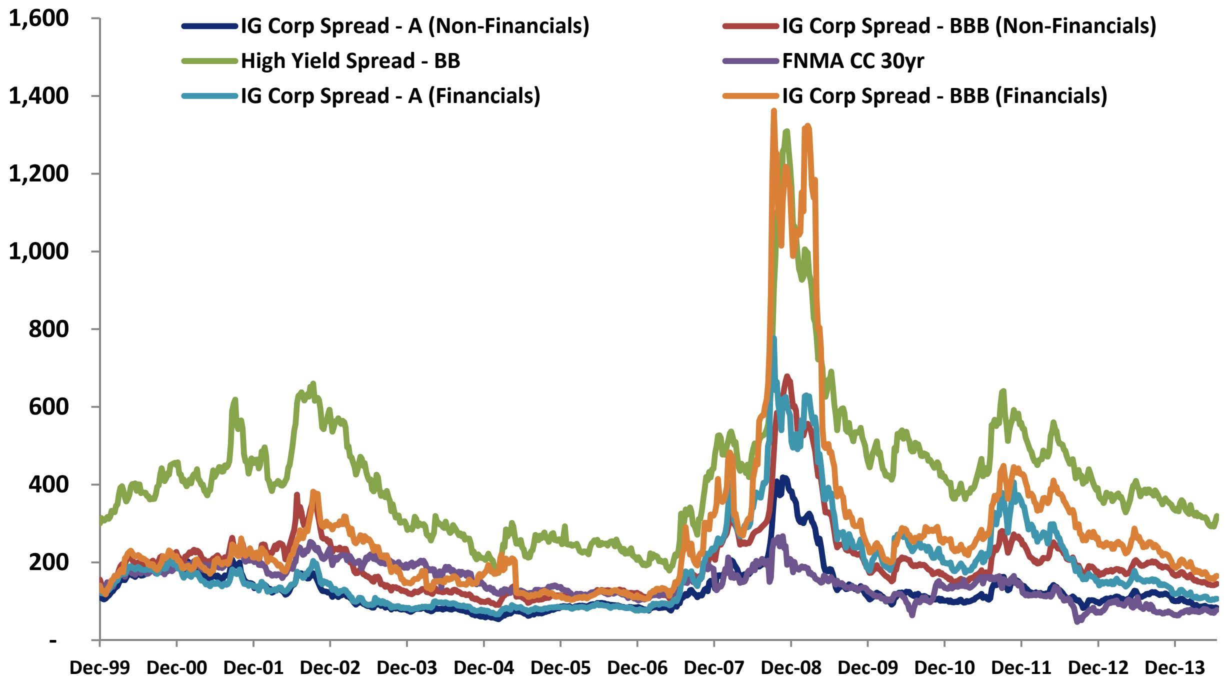
[2] Home price decline for the CoreLogic National Index in the Severe Stress scenario as published in the "Summary Instructions and Guidance" by the Federal Reserve System for the Comprehensive Capital Analysis and Review on November 22, 2011. http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20111122d1.pdf

2011 increase in spreads, which was driven by broader market stress. Under the current PMIERs framework, MIs would be required to raise capital during times of stress, and would face the same limitations on access to capital that markets experienced in 2008 and 2011.



Source: Bloomberg 5Yr CDS Spreads Qtrly

While the stress above illustrates the impact on two monoline MIs, these types of stress generally impact the overall credit market as illustrated in the chart below. A pro-cyclical capital requirement will challenge the ability of all market participants to raise capital in times of stress.



Source: MorganMarkets

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?*

As a general rule, we recommend annual certification. However, in times of extreme market volatility, it may be sensible to require updates to the calculations related to minimum required asset provisions of the PMIERs more frequently.

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

We recommend revising Section 704 of the PMIERs to provide greater specificity regarding the items listed as liquid assets (for example, by cross referencing to specific line items in our statutory financials). Our suggested revisions are included in the redlined version of the PMIERs submitted as Attachment 1 to our response to the Request for Input.

In addition, we recommend that the Available Assets include shares of preferred stock which have been rated by the NAIC with a minimum rating of NAIC 2. This rating is assigned to obligations of high quality and the NAIC 2 rating would be comparable to an investment grade rating for publicly rated securities. The NAIC 2 rated preferred securities should receive similar treatment (SVO market valuation discounted by 25%) as other preferred and common shares under the PMIER standards.

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

The PMIERs should recognize the cash flow streams arising from contractual obligations to pay premiums for insured loans. Failure to include future premiums is at odds with market accepted principles including actuarially based FHA solvency reporting and with the way that CCAR gives credit to banks for future cash flows from mortgage servicing. Recognizing future premiums has the added benefit of encouraging MI industry pricing discipline, because any decrease in premiums would have immediate impact on an MI's available asset amount. As further discussed below, Genworth has undertaken significant back-testing that validates our recommendations.

The table below provides data regarding Genworth's premium experience under severe stress (ever-to-date and modeled remaining life) for our 2005 – 2008 book years, and demonstrates that even under severe stress, it is reasonable to assume at least four years of premium streams.

Book Year	Original NIW	Original RIF	Average Rate	Full Year Premium	Forecast Ultimate Premium	Average Years	1Q'14 Premium ETD	1Q'14 % Premium Received
2005	25.1	6.5	.72%	181	832	4.6	757	91%
2006	26.3	6.6	.70%	184	872	4.7	743	85%
2007	46.9	11.8	.66%	310	1,548	5.0	1,209	78%
2008	38.4	9.4	.47%	180	983	5.4	706	72%
Total	136.7	34.3	.63%	855	4,235	5.0	3,415	81%

In addition to the table above which shows our historical experience of collecting approximately five years of premiums for vintages even under extreme stress, our experience also demonstrates that premiums for a vintage cover a substantial amount of the losses, even under extreme stress. The table below includes loss and claims ratios and the percentage of claim payments covered by premiums for the 2005 – 2008 vintages. This experience further supports our proposal to include 210 percent of prior year's earned premiums in the calculation of available assets.

($MM's as of 1Q 2014)

Book Year	ETD Premium	ETD Losses	ETD Loss Ratio	ETD Paid Claims	ETD Paid Ratio	Premium/Paid Claims
2005	757	1,034	137%	876	116%	86%
2006	743	1,452	195%	1,224	165%	61%
2007	1,209	2,748	227%	2,247	186%	54%
2008	706	1,046	148%	810	115%	87%
Total	3,419	6,280	184%	5,158	151%	66%

Notwithstanding our actual experience under extreme stress, we recognize that dollar-for-dollar recognition of future premiums fails to give effect to the possibility of a capital shortfall or regulatory intervention prior to the recognition of the future premium stream in its entirety. Accordingly, Genworth supports applying to all book years an approach similar to the way that the PMIERs treats premiums for the 2008 and prior book years, with available assets including an amount equal to 210 percent of prior year's earned premiums. In addition, for additional conservatism, we support (1) capping the aggregate premiums included as available asset at 35 percent (maximum concentration of total future premiums compared to total available assets), and (2) when counting future premium attributable to single premium business, capping the amount included at 40 percent of the original unearned premium for any given vintage year. These caps would ensure a private mortgage insurer is not incented to "outrun" possible shortfalls in available assets by imprudently increasing its production on any single book year or product type. For similar reasons, we also recommend that for all books, future premiums be reduced by the amount of unearned premium reserves reflected in the insurer's statutory financial statements (consistent with the way the PMIERs treat the 2008 and prior book years).

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?*

Premiums are *not* excluded from consideration under state regulatory calculations. Actuarial analysis required by the NC DOI to demonstrate claims paying ability in the event of run off include all future premiums on existing books of business.

As discussed in detail in our response to question 31, Genworth recommends a conservative approach of including future premiums in an amount equal to 210 percent of the prior year's earned premiums for the 2009 and forward books. This is consistent with the treatment of older books in PMIERs.

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?*

As discussed in detail in our response to question 31, Genworth recommends a conservative approach of including future premiums in an amount equal to 210 percent of the prior year's earned premiums for the 2009 and forward books. This is consistent with the treatment of older books in PMIERs. This methodology should be applied going forward, and should not be limited to any "transition period."

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?*

We agree in principal that UPR is available cash (and in most cases not refundable) set aside for the purpose of paying policy holder claims. However, Genworth supports the current construct within the PMIERs of only recognizing "earned" single premiums over time plus the portion of single premiums embedded within our recommendation of including future premiums equal to 210 percent of the prior year's earned premiums. In addition and for additional conservatism, we support (1) capping the aggregate premiums included as available asset at 35 percent (maximum concentration of total future premiums compared to total available assets), and (2) when counting future premium attributable to single premium business, capping the amount included at 40percent of the original unearned premium for any given vintage year. These caps would ensure a private mortgage insurer is not incented to "outrun" possible shortfalls in available assets by imprudently increasing its production on any single book year or product type. For similar reasons, we also recommend that for all books, future premiums be reduced by the amount of unearned premium reserves reflected in the insurer's statutory financial statements (consistent with the way the PMIERs treat the 2008 and prior book years).

Excluding all UPR in the calculation of available assets will avoid the incentive for an MI to increase its single premium production at prices that generate returns that may not reflect the extension of risk (i.e., the likelihood that the risk in force will stay on the MI's books longer than a monthly or annual product) solely to increase available assets to satisfy the asset test. Genworth believes taking immediate credit for the estimate of future single premium earned over the next three years strikes the right balance between the need for safety and soundness and broad and appropriate access to credit.

Alternative Approaches

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

As discussed in our responses to the preceding questions and as further set forth in the proposed revisions to the draft PMIERs included as Attachment 1 to this letter, we generally agree with the approach to determine Minimum Required Assets, and are recommending only modest modifications to the published draft.

Limitations Triggered by a Minimum Required Assets Shortfall

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.*

The Enterprises are counterparties, and as such they have a right to understand our financial condition and ensure we are operating in a safe and sound manner. The authority to limit dividend payments or transfers or pledges of assets, however, is a matter that is, and must be, relegated to regulatory authority. It is important that the PMIERs maintain appropriate boundaries between counterparty surveillance and regulatory authority.

The limitations included in Section 706 appear to be appropriate. Genworth recommends requiring the Enterprises to respond to any request from an Approved Insurer under Section 706 within 60 days.

Risk Sharing and Reinsurance

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?*

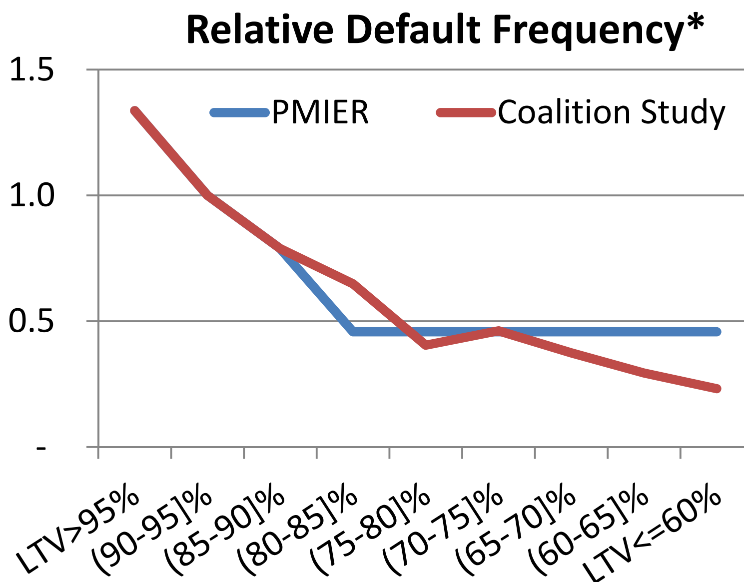
The Risk Based Required Asset Test for the PMIERs apply a different framework than both statutory and GAAP accounting rules. Therefore, the evaluation for credit for reinsurance should be performed and evaluated independently under PMIERs than different frameworks including statutory and GAAP accounting. PMIERs reinsurance credit should require risk transfer under both statutory and GAAP accounting guidance which ensures that (1) the reinsurer assumes significant insurance risk under the reinsured portions of the underlying insurance contracts and (2) it is reasonably possible that the reinsurer may realize a significant loss from the transaction. Once risk transfer is adequately demonstrated by the ceding mortgage insurer, the amount of credit for reinsurance should be determined based specifically on the application of the PMIERs capital regime against the terms of the reinsurance contract.

Statutory capital benefit for reinsurance will vary from PMIERs capital benefit given the difference in capital regimes. For example, under the PMIERs capital grid a 95 LTV and 741 -780 FICO loan requires 6 percent capital and the 6 percent capital requirement would receive dollar for dollar reinsurance credit for cessions of risk up to the first 6 percent of risk-in-force for the loan while receiving no credit above that point. For comparison, the statutory capital requirement of 25:1 risk to capital is not based on FICO or LTV category and would receive 1/25th of any cessions of risk theoretically up to the full amount of risk-in-force. For the same 6 percent risk cession which received 6 percent or dollar for dollar credit under PMIERs, statutory accounting rules would provide 0.24% credit (or 1/25th of the 6 percent risk cession). The PMIERs should explicitly recognize the different capital standards and requirements for reinsurance credit under statutory and GAAP accounting rules and should not require that reinsurance obtain the same amount of credit under those fundamentally different regimes to receive full credit under the PMIER requirements.

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?*

Imposing the same factors for all loans with LTVs of 85 percent or less fails to take into account the lower probability of default and severity of loss associated with loans with lower LTVs. Applying the proposed factors would result in uneconomic pricing for pool insurance.

The current LTV groupings are appropriate for LTVs from 85 percent and above. However, MIs have insured and may again insure policies at LTVs of 80 percent or below, including through risk share transactions with the Enterprises. Performance data from a study commissioned by a coalition of MI companies on policies issued from 1995 – 2012 show clear evidence of a lower default rate for LTV <80 percent.



* Relative to 95 LTV

The current tables would unnecessarily penalize lower LTV loans as all loans <=85 percent are grouped together. Genworth recommends additional LTV bands with adjusted factors that reflect this lower default frequency as follows:

LTV Groupings

Current	**Proposed**
LTV <= 85	LTV <= 60
85 < LTV <=90	60 < LTV <=65
90 < LTV <=95	65 < LTV <=70
LTV > 95	70 < LTV <=75
	75 < LTV <=80
	80 < LTV <=85
	85 < LTV <=90
	90 < LTV <=95
	LTV > 95

In order to facilitate a market for pool insurance for lower LTV loans, the Enterprises and MIs should work to develop appropriate factors for lower LTV loans. In order to produce the most appropriate factors it will be important that the Enterprises share performance data (on both probability of loss and loss severity) to ensure that factors are set at appropriate levels.

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?*

Obtaining a third party actuarial opinion or analysis is an expensive and resource intensive undertaking that should only be required in the event an Approved Insurer is in material non-compliance with the financial requirements set forth in Chapter 7, Financial Requirements of the PMIERs. In such event, the Enterprises should have the right to require the opinion to be updated annually for so long as the MI remains in material non-compliance. See our suggested edits to Section 703 in the redlined PMIERs submitted as Attachment 1of our response to the Request for Input.

Overall Impact

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

Mortgage insurers determine premiums based on their assessment of the risk attributes of a loan and on how much economic capital they should hold to protect against unexpected loss (loss under stress). Historically, mortgage insurers have targeted mid-teen returns on capital. These targeted returns recognize the nature of mortgage credit default risk, which is more volatile than other lines of insurance (*e.g.*, life or auto insurance). As with most other businesses, the ultimate objective is to realize returns commensurate with the MI’s cost of capital.

The construct of the asset test in the PMIERs introduces a new element that MIs will need to consider when determining premiums. The asset test will require each MI to hold a risk-based required asset

amount that is calculated by applying specified factors to its risk in force ("RIF"). The asset test will impact each MI differently based on the risk profile of its insured book and cost of capital. As discussed in detail above and in our response to the questions set forth in the Request for Input, Genworth believes that certain flaws in the asset test (*e.g.*, the failure to recognize the impact of seasoning, the lack of recognition for any future premiums and the "double counting" that results from the factors for non-performing loans) result in a required asset amount that is unnecessarily high, especially with respect to lower FICO and higher LTV loans. Moreover, the asset test, as proposed, will have a pro-cyclical effect. As a result, as proposed, the asset test will create pressure on MI premiums that will have the greatest impact on first time homebuyers, low to moderate income borrowers and members of underserved communities.

To calculate the potential impact of PMIERs on MI pricing, Genworth calculated a return on capital for each cohort included in Table 3 in Exhibit A of the PMIERs. To calculate returns, we used standard industry pricing and assumed set target returns consistent with the historical industry mid-teens range.[3] We note that the assumptions regarding loss ratios and delinquency rates are directionally correct but do not reflect actual experience. We do not believe that actual experience would result in materially different outputs.

To determine return on equity, we first calculated after tax income, starting with the standard industry rate card for borrower paid monthly MI product as the premium for each loan type based on FICO and LTV category. Where the PMIERs capital grids overlap the industry pricing tables, the rates were split 50/50 with the higher and lower FICO rates. The premium amount was reduced by both expenses (20 percent) and losses (specific assumption by each different FICO category) resulting in underwriting margin. Investment income was added to the underwriting margin by calculating the PMIERs performing asset requirement and multiplying the required capital amount by the investment yield assumption of five percent. The resulting pre-tax operating income was then taxed at 35 percent to produce an after tax net income amount for each loan type.

The capital amount for each loan incorporates both the PMIERs grids for performing loans and a capital requirement for non-performing loans. The required capital amount for performing loans is based on the FICO and LTV categories from the PMIERs tables and the required capital amount for non-performing loans used the assumption of 70 percent less the estimated reserve of 30 percent (or a net increase of 40 percent) for the percentage of loans that are delinquent. We have assumed delinquency rates of between two and eight percent based on the FICO category of the loans to determine the splits between performing

[3] Other assumptions used in our analysis are:
General assumptions:
Average macro-economic forecast
Loss Ratio by Cohort: 621-680 = 30%, 681-740 = 25%, 741-780 = 20%, 780-850 = 15%
Expense Ratio: 20%
Tax Rate: 35%
Pre-Tax Investment Yield: 5%

Additional Assumptions for Non-Performing Loans:
Delinquency Rate by Cohort: 621-680 = 8%, 681-740 = 6%, 741-780 = 4%, 780-850 = 2%
Avg. PMIERs Non Performing Capital Requirement: 70%
Estimated Expected Reserve: 30%

and non-performing loans. The aggregate capital requirements were compared to risk in force to determine the PMIERs capital standards as a percentage of performing and non-performing risk in force.

Returns were calculated and evaluated under both the performing tables only (at origination of the loan or book) and using a combination of performing/non-performing tables to determine the overall life impact of the PMIERs on the level of returns. Finally, as a sensitivity, the premium rates for each FICO /LTV category were adjusted to target a mid-teen return for each loan.

Our analysis shows that, given the very high credit profile of mortgage loans being originated today, applying the asset test does not materially impact aggregate returns across a book of business. However, the PMIERs do not impact all cohorts equally, and the outcome of our analysis is largely driven by the historically high concentration of new insurance written on loans with FICO scores at or above 740 FICO.

Returns on lower FICO, higher LTV loans (especially loans with LTVs above 90 percent and FICO scores below 680) are materially below historical industry norms.[4] The impact is compounded by the pro-cyclical effect of the proposed non-performing loan factors set forth in Table 5 in Exhibit A of the PMIERs, which further pressures returns. (The issue of the non-performing loan factors is further discussed in our response to question 19 above.)

While lower returns on these cohorts may be sustainable in the current pristine credit environment, as mortgage credit begins to ease or if market conditions were to deteriorate, pricing on lower FICO, higher LTV loans could increase by approximately 60 basis points. This would be a 50 percent premium increase for those borrowers who are most sensitive to increases in the cost of home ownership. We note that today, approximately 60 percent of new insurance written by MIs is for loans with FICO scores above 740. This is in stark contrast to the traditional credit mix of approximately 25 percent of loans with FICO scores above 740. As currently proposed, the PMIERs will have a disproportionate impact on first time homebuyers, low to moderate income borrowers and members of underserved communities – credit worthy borrowers who traditionally tend to purchase homes with lower down payments. This dynamic will impact all mortgage insurers.

To further illustrate the way that PMIERs could impact affordability for borrowers, we calculated the potential impact on the monthly payment for borrowers with FICO scores between 620 – 680 and an LTV of 95 percent. Table 1 below shows a monthly payment comparison based on today's pricing for an loan insured by the FHA versus an Enterprise loan with private MI with today's MI premiums and following potential increases driven by the PMIERs. Table 2 shows those same comparisons but assumes that FHFA requires that the Enterprises eliminate current loan level pricing consistent with public input received in connection with the Request for Input on G-fees.[5]

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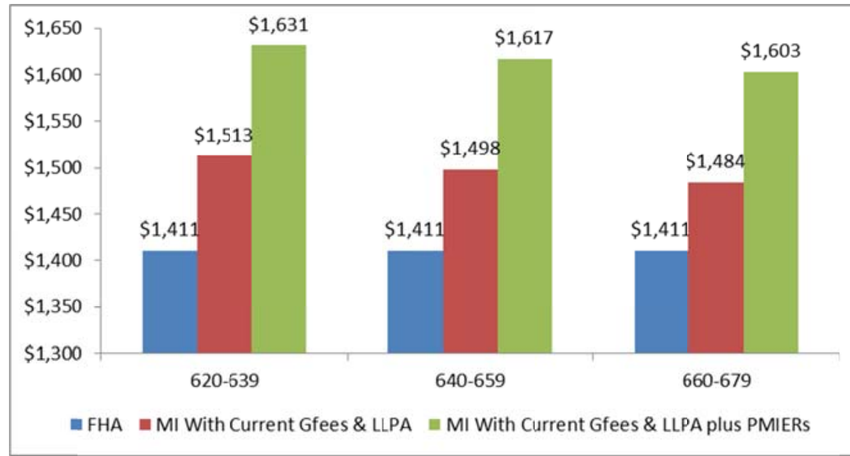
[4] Our analysis is consistent with that of several industry analysts who have opined that the factors set forth in Exhibit A of the PMIERs will result in lower MI returns, especially for loans with MI made to creditworthy borrowers at the lower range of the credit spectrum. *See, e.g.,* Mark Zandi, et al., "Putting Mortgage Insurers on Solid Ground", Moody's Analytics, August 2014, available at http://www.urban.org/UploadedPDF/413213-Putting-Mortgage-Insurers-on-Solid-Ground.pdf and Bose George, et al., "Updated Thoughts on PMIERs - We Recommend a Modest Change", Keefe, Bruyette & Woods, July 21, 2014

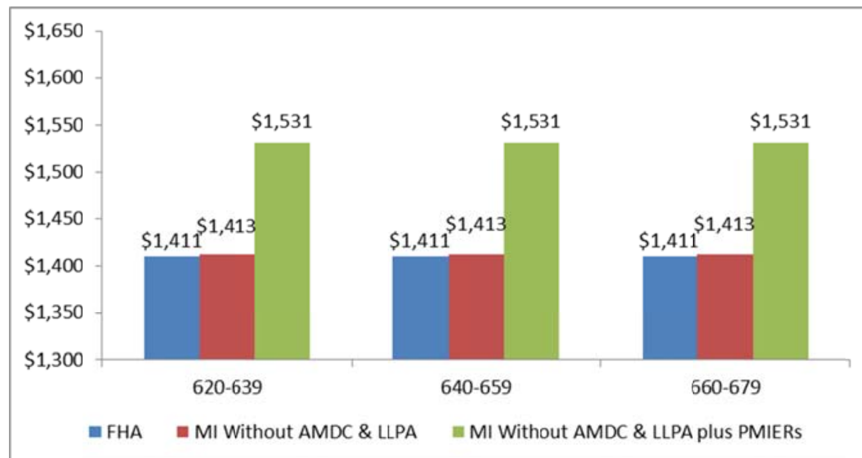
[5] FHFA recently solicited public input on Enterprise pricing. Comments are due concurrently with this Request for Input. Genworth submitted comments to the FHFA regarding Enterprise pricing in which we recommended that loan level price adjustments be eliminated or significantly reduced. Other submissions supported our recommendation. *See* Genworth's comment letter, included as Attachment 2

Table 1.
Borrower Payment Comparison FHA vs. MI vs. MI Plus PMIERs Impact
95 Percent LTV, Current G-fee pricing*



*Assumes $250,000 house price, 30-year term, 3.50 percent pass-through rate, four percent base note rate (before g-fee and LLPA adjustments), five year annualization factor, 100 bp GNMA bond price advantage (resulting in 20 bp rate advantage), annualized g-fee of 42 bps (direct note rate impact), and current AMDC and FICO/LTV based LLPAs. Genworth filed MI premium rates used to determine GSE monthly payment.

Table 2.
Borrower Payment Comparison FHA vs. MI vs. MI Plus PMIERs Impact
95 Percent LTV, Eliminate LLPAs &Adverse Market Fees**



**Assumes $250,000 house price, 30-year term, 3.50 percent pass-through rate, four percent base note rate (before g-fee adjustment), five year annualization factor, 100 bp GNMA bond price advantage (resulting in 20 bp rate advantage), and annual g-fee of 42 bps (direct note rate impact). Genworth filed MI premium rates used to determine GSE monthly payment.

As illustrated in Tables 1 and 2, the impact of PMIERs on borrower monthly payment could be material, and could have significant implications for the broader mortgage market. In such an event, many borrowers would logically elect the lower payment option, effectively limiting borrower choice for a historically underserved segment of the market. Moreover, the federal government and taxpayers will assume much greater exposure to mortgage losses as a result of the FHA insurance. As a matter of

housing policy, the PMIERs should not function to shift more risk to government and taxpayers when private capital is available to prudently and affordably assume that risk. We urge FHFA to give serious consideration to revising the PMIERs to ensure that they do not result in consequences that are directly contrary to the important policy objective of balancing safety and soundness and broad access to credit. Note that in the event the FHA lowers its premiums, any increase in the MI premium could have a significantly greater impact borrower payment comparison. As a matter of sound public policy, the goal should always be to have private capital assume risk of loss ahead of the government and taxpayers.

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

We understand that some lenders and lender trade associations are concerned that the PMIERs may create duplication of efforts or otherwise increase costs and operational frictions, and we expect them to submit comments that address this issue.

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

43. *Are the remediation measures sufficiently comprehensive? Should the number of measures be reduced, expanded or refined and, if so, how?*
44. *Do the remediation measures present any unintended consequences or operational constraints?*

Remediation is an extremely serious event that will have significant implications for an MI and for the Enterprises. The pro-cyclical construct of the current proposal for the asset test would result in remediation being triggered when markets are already experiencing stress, thereby exacerbating any downturn. We note that the significant implications for non-compliance with the PMIERs is one reason Genworth is so highly committed to working with FHFA and the Enterprises to make the revisions needed before the PMIERs are finalized It is also why we think it is necessary that any decision related to remediation be approved in writing by the CEO of the Enterprise and the Director of the FHFA.

Some of the measures included in Section 901would require the approval of our state regulators, and we have revised Section 901 to reflect this requirement. See the redlined version of the PMIERs included as Attachment 1 to our response to the Request for Input.

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

We are not recommending any alternative frameworks for remediation at this time.

46. *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. See our proposal to add a new Section 1000, Request for Appeal, to the PMIERS in the redlined version of the PMIERs included as Attachment 1 to this response to the Request for Input.

H. Newly Approved Insurers

47. What financial and business requirements should be placed upon new entrants? How would such requirements affect the market for mortgage insurance?

Genworth supports the additional oversight that is contemplated for new MI entrants and included in Section 203 of the PMIERs. As noted in our response to question 2, we also recommend that the Enterprises require each MI, including new entrants, to report quarterly a new premium to new RIF ratio for flow business. This ratio would serve as a useful indicator that would supplement the asset test by tracking trends in pricing relative to risk that could signal possible shifts in overall risk. This ratio should be simple for each MI to calculate and would be a simple tool for the Enterprises to monitor each MI on an individual basis and relative to its peers. Our suggestion is consistent with Genworth's quarterly public disclosures filed with the SEC, and we urge FHFA to consider requiring all MIs to make available the same detailed information regarding premiums relative to risk insured.

I. Transition Process

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

The proposed time frames are appropriate, and should be uniformly applied to all MIs.

49. 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?

Yes, the transition period should be the same for all MIs.

Recommendations for the

Operational Scorecard Template - Exhibit B

of the Draft Primary Mortgage Insurer Eligibility Requirements (Released July 10, 2014)

Based on past efforts to create and exchange detailed data, we anticipate and recommend strong collaboration between the MI's and the GSE's to engage in an iterative process to facilitate the development of an agreeable scorecard, revision process, data dictionary and reporting parameters well in advance of the anticipated June 2015 effective date.

From a governance perspective, Genworth recommends the GSEs provide target scorecard performance expectations to each approved insurer no later than 180 days prior to the date such target expectations will go into effect. In the event the GSEs revise the Operational Performance Scorecard, we recommend the GSEs provide each approved insurer with at least 180 days advance notice of such revisions to ensure an opportunity to comment and sufficient time for each approved insurer to implement necessary changes.

With these baseline controls and the enclosed comments and recommendations to the Operational Scorecard Template, Genworth would support publicly releasing the scorecard following an initial one year non-public calibration period and establishment of a baseline for common understanding of the intent, definitions, expectations, and reasonableness of the resulting process to produce the requested metrics.

Genworth also recommends the *addition* of the following metrics for scorecard evaluation. Definitions and calculations are provided in the relevant scorecard section. [6]

- Premium to New Risk in Force Ratio for Monthly and Annual Premium Products
- Premium to New Risk in Force Ratio for Single Premium Products
- Early Rescission (less than 36 months) Relief Review Rate
- Early Rescission Relief Denial Rate

Origination QC Data (GSE Combined)

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[6] MIs do offer a limited number of other product types, but industry volume in those other products is immaterial, so we believe ratios for monthly/annual and for single premiums are sufficient.

SUMMARY & ASSUMPTIONS

Origination Data (GSEs Combined)

In the past, during GSE audits of Genworth processes, we have provided origination QC results on all of our New Insurance (both GSE & non-GSE combined). Genworth recommends providing the information based on all new insurance.

#	Origination Data (GSEs Combined) %
1	Monthly MI QC Sample Rate (Total)
1a	Monthly MI QC Sample Rate (Delegated UW)
1b	Monthly MI QC Sample Rate (Non-Delegated UW)
2	Monthly MI QC Defect Rate (Total)
3	Monthly MI QC Defect Rate (Delegated UW)
4	Single Premiums as a % of Total NIW

Non-Delegated Pre-Close Loan Reviews

Genworth performs all non-delegated QC reviews on a pre-close basis. Our QC reviews are based on the information required to make an MI underwriting decision. Our commitments have closing conditions associated with the decision. The lender is responsible for closing the loan as described in the conditions. Loans not meeting closing decision are subject to rescission per Master Policy MP-1480 Section 4.1 (g). Performing non-delegated QC reviews on a post-close basis will cause an inconvenience to the customer without any additional benefit to determining origination risk on the loans.

LINE ITEM DEFINITIONS & CALCULATIONS

Monthly MI QC Sample Rate (Total)

- Genworth recommends including both commitments and new certificates.
- Genworth recommends not including non-delegated declines. Declinations are not new risk placed into our portfolio. Declinations should be audited on a discretionary basis to ensure that declination decisions were appropriate and processed in compliance with company policies.
- The sample rate would be reported on a 4 month lag.

$$\frac{(\text{ \# of non-delegated commitments sampled + \# of delegated certs sampled })}{(\text{ \# of non-delegated commitments + \# of delegated certs })}$$

Monthly MI QC Sample Rate (Delegated UW) =

# of delegated certs sampled / # of delegated certs

- Genworth recommends reporting this metric on a 4 month lag.

- When Genworth performs in-depth delegated QC reviews of lender, the review is over 3 months of production. The benefits for this are: (a) we see a larger amount of volume and are able to perform statistically valid reviews of more lenders and (b) there is less month-to-month volatility in the metric. We believe these benefits outweigh the additional two or three month wait for results. Changing this approach to monthly would result in few lenders being audited.
- The only way to reduce this time lag is to request loans on a monthly basis, which is not customer sensitive (3 requests instead of 1), and the overall results are not valid until all 3 months are selected and audited.

Monthly MI QC Sample Rate (Non-Delegated UW) =

# of commitments sampled / # of commitments

- This can be reported on a monthly basis for the previous month.
- Genworth recommends that the metric be based on the coverage of the risk that is being accepted into the Genworth portfolio. We would recommend that declinations be done on a discretionary basis and not be included in the population. Declinations are not additional risk on the PMI portfolio as long as declined in a correct and compliant way.
- Commitments represent potential volume and risk that the insurer is willing to take therefore it should be the basis of this metric.

<u>Monthly MI QC Defect Rate (Total)</u>
Recommend removal of this metric since delegated and non-delegated production are based on different units (commitments versus certificates).

Monthly MI QC Defect Rate (Non-Delegated)=

# of commitments with errors / # of commitments sampled

- This should be able to be reported on a monthly basis with a 60 to 90 day lag.
- For example, in today's process, reviews of June Commitments are reviewed at the end of August.
- This must come from the Random Statistical Sample and not include discretionary samples.
- This should be the basis for the 95% confidence / 2% precision (sampling error) on an annual basis. Genworth suggests 95% confidence / 5% sampling error on a quarterly basis.

Monthly MI QC Defect Rate (Delegated UW) =

# of channel-wide sample loans with errors / # of channel-wide loans sampled

- Genworth refers to the channel-wide sample as a process in which every delegated certificate for a given time period has an equal chance of being selected via a statistical random sample. The channel-wide sample occurs across all lenders, all loan risk categories, etc. This is the basis for the QC Defect Rate.

- There are additional discretionary reviews that occur for higher risk loans, etc.
- This should be reviewed at a statistical precision of 95% confidence / 2% precision on an annual basis. Genworth suggests 95% confidence / 5% sampling error on a quarterly basis.
- As stated with delegated above. This metric will be reported in arrears.
- The MI QC Defect Rate can be reported quarterly with the most up to date information at time of reporting.

Frequency of QC Reporting

Genworth recommends reporting QC data on a quarterly basis versus a monthly basis.

NEW METRIC (Addition to Scorecard)

Premium to New Risk in Force Ratio for Monthly and Annual Premium Products =

Monthly and Annual Product Premium Rate for New Risk in Force / Monthly and Annual Product Risk in Force at time of Origination

Premium to New Risk in Force Ratio for Single Premium Products =

Single Premium Product Rate for New Risk in Force / Single Premium Risk in Force at time of Origination

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Claims Performance (FRE or FNM only)

SUMMARY & ASSUMPTIONS

- Current Month, Flow business only
- Fannie Mae and Freddie Mac loans only
- Denied Claims = State of Maryland Rescissions under the current Master Policy
- Based on Net Days (Tolling)

Perfected Claim = Required Documents/Notes Received for Claim Processing. Once Claim has been Processed, It is considered Perfected.

LINE ITEM DEFINITIONS & CALCULATIONS

	Claims Performance (FRE or FNM only)
	# / %
5	Perfected Claims: # of Claims not paid < =60 days
6	Perfected Claims: # of Claims not paid > 60 days
7	Perfected Claims: % < 60 days
8	Perfected Claims: % > 60 days
9	Perfected Claims: # of Claims < =180 days since filing
10	Perfected Claims # of Claims > 180 days since filing
11	Perfected Claims % < 180 days since filing
12	Perfected Claims % > 180 days since filing
13	Non Perfected Claims: # of Claims <= 180 days
14	Non Perfected Claims: # of Claims > 180 days
15	Non Perfected Claims: % < 180 days
16	Non Perfected Claims: % > 180 days
17	Non Perfected Claims: # of Claims <= 270 days
18	Non Perfected Claims: # of Claims > 270 days
19	Non Perfected Claims: % < 270 days
20	Non Perfected Claims: % > 270 days
21	Non Perfected Claims: # of Claims <= 120 days
22	Non Perfected Claims: # of Claims > 120 days
23	Non Perfected Claims: % < 120 days
24	Non Perfected Claims: % > 120 days
25	Reinstatement Rate (%)

Perfected Claims: (For the Reporting Month)

A Claims Paid <= 60 Net Days from Receipt

B Claims Paid > 60 Net Days from Receipt

C Sum of A+B = Total Claims Paid in Month

A/C Claims Paid <= 60 Net Days from Receipt %

B/C Claims Paid > 60 Net Days from Receipt %

Sum of Two = 100%

Non Perfected Claims: (Returned under Current Master Policy, Denied under New Master Policy)

A Claims Returned + Denied <=180 Days

B Claims Returned + Denied >180 Days (Assumption is this is Zero as Returned/Denied Claims are 90 Days - Does Not include Withdrawn Claims)

C Sum of A+B = Total Return/Denied Claims

Reinstatement Rate:

Use count of Reinstatement

Frequency of Claims Performance Reporting

Genworth recommends reporting data on a quarterly basis versus a monthly basis.

Underwriting (GSEs Combined)

	Underwriting (GSEs Combined)
	%
26	% Delegated Underwriting Post Close Verification Process
27	% Delegated Underwriting to Lender

LINE ITEM DEFINITIONS & CALCULATIONS

- The Genworth recommended metric provides the percentage of our sample that is undergoing re-verifications.

% Delegated Underwriting Post Close Verification Process =

delegated certs undergoing post close verification / # of delegated certs in QC Sample

Frequency of Underwriting Reporting

Genworth recommends reporting data on a quarterly basis versus a monthly basis.

Rescissions and Denials

(FRE or FNM only)

	Rescissions and Denials (FRE or FNM only)
	%
28	Rescission Rate (New Books 2009 to present)
29	# of Rescissions on Claims filed
30	# of Rescissions pre-claim
31	# of Claims Filed
32	Rescission Rate (Legacy Book prior to 2009)
33	# of Rescissions on Claims filed
34	# of Rescissions pre-claim
35	# of Claims Filed
36	Denial Rate
37	# of Claim Denials or MI Cancellations post-claim
38	# of MI-initiated Cancellations pre-claim
39	# of Claims Filed

SUMMARY & ASSUMPTIONS

- Cancellations exclude HPA and Bar to Recovery
- Fannie Mae and Freddie Mac loans only
- Denied Claims = State of Maryland
  Rescissions under the current Master Policy and must be Delinquent for all states
- Actual Rescissions (excludes Pre-Rescissions)
- Calculations for (1) New Books 2009 to present and (2) Legacy Book prior to 2009

LINE ITEM DEFINITIONS & CALCULATIONS

Rescission Rate

# of Rescission on Claims Filed

A Current month rescinded loans with previous claim receipt

# of Rescission of pre-claim

B Current month rescinded loans with no previous claim receipt

# of Claims Filed (Matches perfected Claim)

C Total claims filed in month

(A+B)/(A+B+C)

Current Month Rescinded Loans/(Total Claims Filed + Current Month Rescinded Loans)

Denial Rate

of Claim Denials or Cancellation Post Claim

A (Current Month Claims Denied + Current Month Claims Cancelled) After Claim Received

# of Claim Cancellation Pre-Claim

B Current Month Genworth Initiated Cancellations on Delinquent Loans

Total Denials & Cancellations

C Total Denials & Cancellations from Delinquent Loans (A+B)

# of Claims Filed (Matches Perfected Claim)

D Total Claims Paid in Month

C/(C+D)

(Total Denials & Cancellations)/(Total Claims Paid in Month + Denials + Cancellations)

Frequency of QC Reporting

Genworth recommends reporting data on a quarterly basis versus a monthly basis.

NEW METRICS (Additions to Scorecard)

Early Rescission (less than 36 months) Relief Review Rate =

Number of Policies in period reviewed for Early Rescission Relief / Number of Certificates Written in period

Early Rescission Relief Denial Rate =

Number of policies Denied for Early Rescission Relief / Number of policies reviewed For Early Rescission Relief

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NIW by Top 10 Lenders

(GSEs Combined)

	NIW by Top 10 Lenders (GSEs Combined)
	Top 10 Customers ($ NIW)
35	Customer 1
36	Customer 2
37	Customer 3
38	Customer 4
39	Customer 5
40	Customer 6
41	Customer 7
42	Customer 8
43	Customer 9
44	Customer 10
45	All Other
46	Total

SUMMARY & ASSUMPTIONS

Per Global Comments, recommend quarterly frequency and scope of data not be based on GSEs Combined.

State-level $ NIW

(GSEs Combined)

SUMMARY & ASSUMPTIONS

Per Global Comments, recommend quarterly frequency and scope of data not be based on GSEs Combined.

	State-level $ NIW (GSEs Combined)
	Top 10 States ($ NIW)
47	AL
48	AR
49	AZ
50	CA
51	CO
52	CT
53	DC
54	DE
55	FL
56	GA
57	HI
58	IA
59	ID
60	IL
61	IN
62	KS
63	KY
64	LA
65	MA
66	MD
67	ME
68	MI
69	MN
70	MO
71	MS
72	MT
73	NC

Attachment 1

Genworth Redlined Comments
September 8, 2014

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Draft Private Mortgage Insurer Eligibility Requirements

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Introduction

This document contains both requirements as well as guidelines associated with applying for, obtaining, and maintaining *GSE approved insurer* status. *Approved insurers* must meet requirements that are preceded by the term "must" or "shall."

The purpose of this document is to inform *approved insurers* of how the *GSE* will implement the provisions of its charter, which states that the *GSE* may purchase mortgages guaranteed or insured by a qualified insurer as determined by the *GSE*.

This document is intended solely for the use of *approved insurers* and applicants for *approved insurer* status. For the avoidance of doubt, the PMIERs are not intended to have the effect of regulation, which is expressly the domain of regulators, but, rather, they set forth requirements an *approved insurer* must meet and maintain in order to provide mortgage guaranty insurance on loans owned or securitized by the GSE.

Effective Date

These revised approval requirements or *PMIERs* are effective [TBD] for new applicants as well as for those that have been approved in the past under prior mortgage eligibility requirements.

Amendments and Waivers

The *GSE* may in its sole discretion modify, amend or waive any provision of these *PMIERs*, or impose additional requirements, applicable to one or more individual *approved insurers* regardless of their status, or to any entity seeking *approved insurer* status. Any amendments, waivers or modifications to these *PMIERs*, or additional requirements, will be communicated in writing to each *approved insurer* that is subject to the requirement with an effective date specified by the *GSE*. Any waiver of these *PMIERs* must be in writing, and signed by the *GSE*. Any such written waiver, amendment or modification must expressly refer to the provision(s) of the *PMIERs* being waived and be denoted as a waiver of such provision(s).

Defined Terms

All terms in italics are defined in the glossary located at the back of this document. Terms not defined in the glossary are used in the context of standard industry practice. The *GSE* shall determine in its sole discretion the final application and interpretation of any terms contained herein.

Application

100
PMIERs Must be Met at All Times

All *approved insurers*, including *newly approved insurers*, must meet or exceed these published *PMIERs*, conditions of approval or other applicable amendments or waivers made by the *GSE* to these requirements and fulfill any obligations arising hereunder at all times.

An authorized *officer* of the *approved insurer's senior management* team must provide an annual written certification that the *approved insurer* has met all requirements of these *PMIERs*. Except for other *PMIERs* sections that state a different period for notice of a failure to meet, the *approved insurer* must notify the *GSE immediately* upon discovery of its failure to meet any one or more of these *PMIERs,* conditions of approval or other applicable amendments or waivers made by the *GSE* to these requirements. As part of the annual written certification of having met these *PMIERs*, the *approved insurer* must identify any failure to meet any additional requirements placed on the *approved insurer* by the *GSE* and their status.

In accordance with the available and minimum required assets requirements described in Section 704 of these *PMIERs*, an authorized *officer* of the *approved insurer's senior management* team must certify quarterly the accuracy of its reporting of *available assets* and other data used to calculate *minimum required assets* as described in these *PMIERs.*

Comment [A1]: Compliance with the certification requirement would be facilitated by incorporation of suggested revisions with respect to governance and materiality provisions.

Comment [A2]: As a general rule, we recommend annual certification. However, in times of extreme market volatility, it may be sensible to require updates to the calculations related to minimum required asset provisions of the PMIERs more frequently.

101
Compliance with Laws

An *approved insurer* must maintain compliance with all *applicable law* except where such noncompliance ~~could~~would ~~not reasonably be expected to~~ have a material adverse impact on ~~the business, property, operations or financial condition of~~ the approved insurer.

The *approved insurer* must notify the *GSE* in writing *immediately* upon its determination of ~~*material*~~ noncompliance with any *applicable law* ~~if~~except where such noncompliance could not reasonably be expected to have a material adverse impact on the business, property, operations or financial condition of the approved insurer. For purposes of clarification and without limiting the generality of the foregoing, such noncompliance includes the following:

1) a notice, letter, or order from a state or federal authority asserting jurisdiction over an *approved insurer* indicating that: (a)(i) the financial condition of the *approved insurer* is or may be "impaired,"; (ii) the *approved insurer* is or may be "insolvent"; or (iii) the financial condition of the *approved insurer* is or is in danger of becoming "hazardous," as any one or all of those terms are interpreted by the authority asserting jurisdiction, and/or (b) that the *approved insurer* does not meet or is in danger of not meeting any *applicable law* associated with the *approved insurer's* continued ability to write new insurance or to renew insurance previously written. Such notice, letter or order shall be considered an event requiring *immediate* notice to the *GSE* hereunder; even though the *approved insurer* may believe: (i) that it has a well-founded basis for disagreement with the assertion of noncompliance or (ii) that the state or federal authority has not made a final determination as to the noncompliance;

2) any notice, letter, or order of any state or federal authority asserting jurisdiction over the *approved insurer* indicating that the *approved insurer* may not be, or is not, in compliance with an applicable state or federal law, regulation or order other than as described in 1) above where such non-compliance could not reasonably be expected to have a material adverse impact on the business, property, operations or

financial condition of the approved insurer, even though the *approved insurer* may believe: (a) that it has a well-founded basis for disagreement with the assertion of noncompliance or (b) that the state or federal authority has not made a final determination as to the noncompliance.

102 Applicable NAIC Regulations

An *approved insurer* is required to maintain compliance with the specific provisions of the *Model Act* referenced in Sections 303, 308 and 802 of these *PMIERs, except to the extent applicable law* conflicts with the *Model Act*, in which case, the *approved insurer* must comply with *applicable law*.

103 Ownership/ Corporate Governance of Approved Insurers

An *approved insurer* that is an *affiliate* of (i) a *mortgage enterprise* and/or (ii) an *affiliate* of a *mortgage enterprise* shall certify in its annual certification that the *approved insurer* has met the following requirements:

1) The *approved insur*er is not the insurer of any mortgage originated by such *mortgage enterprise* and/or *affiliate* of a *mortgage enterprise* to which the *approved insurer* is *affiliated*; and
2) The *approved insurer* is not the insurer of any mortgage originated by any *mortgage enterprise*, for which the servicing or contractual right to service was acquired or performed by such *mortgage enterprise* and/or *affiliate* of *a mortgage enterprise* to which the *approved insurer* is *affiliated.*

The requirements of 1) and 2) above do not apply if subsequent to the insurance of a mortgage by an *approved insurer* that has met the requirements of 1) or 2) above, a *mortgage enterprise* or an *affiliate of a mortgage enterprise* with whom an *approved insurer* is *affiliated* (a) purchases that insured mortgage or (b) acquires the contractual right to service the mortgage, but in either case or in both cases does not (i) re-direct placement of mortgage insurance coverage at renewal to its *affiliated approved insurer* or (ii) service or direct the servicing of the loans insured by its *affiliated approved insurer* in a manner materially different than loans that are not insured by its *affiliated approved insurer*. For example, 1) and 2) are not violated if the *affiliated mortgage enterprise* of an *approved insurer* acquires the contractual right to service a mortgage that is already insured by the *approved insurer,* but the servicing contract mandates that all mortgages, whether insured by an *affiliated approved insurer* or not, be serviced in accordance with the same servicing standards.

An *approved insurer* must also meet the following requirements:

A) The *approved insurer* must document and maintain evidence supporting its having met the requirements of 1) and 2) above and its procedures for certification thereof and share such evidence with the *GSE* upon the *GSE*'s request. The *approved insurer* also must provide the *GSE* annually with certifications by the a*pproved*

insurer's external auditors that the *approved insurer* (i) has policies, procedures and controls in place that are adequate to meet the requirements of 1) and 2); (ii) is in compliance with those policies and procedures and, (iii) has received an *Agreed Upon Procedures* report from its external auditors indicating that testing has been performed on such policies, procedures and controls. Should the external auditor identify significant exceptions in the conduct of procedures performed, the *approved insurer* must provide notice to the *GSE immediately.*

B) The *approved insurer* must provide the *GSE immediate* notice of any violation of the requirements of 1) and/or 2) without assessing or making a determination as to whether the violation is *material.*

103 Ownership/ Corporate Governance of Approved Insurers (continued)

C) 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*.

D) The *master policies* must contain a provision requiring that if the servicing rights for a mortgage loan are sold, assigned or transferred in any manner, in order for the coverage of the mortgage loan to continue under the policy, the new servicer must be (i) an entity to which the *approved insurer* has issued a *master policy* or (ii) approved in writing by the *approved insurer*.

200 Application Criteria

An applicant seeking *approved insurer* status must be a corporation that is duly organized, in good standing~~,~~ and ~~duly organized pursuant to and operating~~ in compliance with, *applicable law* except where non-compliance ~~could~~would not ~~reasonably be expected to~~ have a material adverse impact on the ~~business, property, operations or financial condition of the~~ applicant.

GSE approval is based on the ability of the applicant to satisfactorily meet these *PMIERs and* any other terms or conditions provided by the *GSE* as a condition of approval*,* including the approval of the applicant's *master policy*.

201 Application Submission

The applicant must submit (electronically, if required) the forms, information, documentation and certifications required for the application process of the *GSE*. The application submission must include information on the applicant's ownership, management, corporate structure and legal organization, including parental and affiliate relationships. The application submission must include the master policy form(s) that the applicant intends to use to insure loans to be acquired by the *GSE* for primary *mortgage guaranty insurance,* as well as any proposed bulk or pool insurance transactions, if applicable.

Approval of the applicant's *master policy* requires the submission by the applicant of any related documents including, without limitation, policies or procedures provided or intended to be provided to an *insured* or *insureds* regarding the administration and/or interpretation of *master policy* terms and conditions.

The *GSE* will review the application submission as well as any qualitative factors related to the applicant, including an assessment of having met these *PMIERs*, master policies, and review of business practices and operational capabilities. The *GSE* may require additional

documents or actions as part of its application review process. Upon approval, the *GSE* will notify the entity of the terms and conditions of approval in writing.

Only one *flagship* will be permitted in any family of insurance companies. Other insurers in the family may be approved by the *GSE* for specific purposes; however, the *approved insurer* status, if any, of these subsidiaries or *affiliates* is dependent on the continued eligibility of the *flagship approved insurer* as the primary writer of *mortgage guaranty insurance*. The *GSE* may approve an insurer with certain conditions limiting its scope of business, and any change will require prior approval by the *GSE*. A request for approval of any entity not previously a *flagship approved insurer* must be made in accordance with these *PMIERs* including, without limitation, the application and fee requirements of Sections 200 through 203 hereof and approval will be granted at the sole discretion of the *GSE*.

202 Application Fee/Other Costs

As reimbursement for internal costs incurred in the *GSE's* review of the application, the applicant must pay to the *GSE* a nonrefundable application fee of $250,000 at the time of filing an application plus, as incurred, any out-of-pocket costs, fees and expenses, including any of the foregoing as are incurred and payable to third parties retained by the *GSE* to assist in its evaluation of the applicant. Additionally, applicants that are granted approval by the *GSE* may be required to pay costs, fees and expenses incurred by the *GSE* to operationally accept and process mortgages insured by the *newly approved insurer.*

203 Newly Approved Insurer Requirements

A *newly approved insurer* must meet the following financial requirements in addition to those described elsewhere in these *PMIERs.* Further, an *approved insurer* that is subject to a *material* change in its ownership, control or organization; or a formerly-*approved insurer* that requests reinstatement following suspension or termination, may, in the discretion of the *GSE*, be treated as a *newly approved* insurer for some or all of these requirements for *newly approved insurers*.

A newly approved insurer must demonstrate initial capital funding in an amount not less than $500 million. This amount may include contributions already made and/or provisions for start-up and formation costs such as those associated with the acquisition or development of an operating platform and supporting technology. Subsequently, the *approved insurer* must then maintain a level no lower than $400 million of *available assets* as described in Section 704 of these requirements.

A *newly approved insurer* must obtain a *rating agency* rating as soon as practicable but no later than 3 years from the date of the *GSE's* approval.

For the first 3 years after the date of the *GSE's* approval, a *newly approved insurer* is prohibited from the following:

1) paying dividends to its *affiliates* or its holding company; or
2) making any investment, contribution or loan to any subsidiary, parent or *affiliate*.

For the first 3 years after receipt of the *GSE's* approval, the *newly approved insurer* must

seek and obtain approval from the *GSE* for the following:

1) Any *reinsurance* agreements entered into by the *newly approved insurer* including that referenced in Section 708 of the *PMIERs*;
2) Any risk novation or commutation sought by the *newly approved insurer;*
3) Providing any kind of *mortgage guaranty insurance* beyond primary first lien; and
4) Provision of capital support, assumption of liability, or guarantee of another company's indebtedness by the *newly approved insurer*.

For *newly approved insurers*, Sections 200-203 of these requirements apply in addition to all other *PMIERs* herein applicable to *approved insurers*. However, additional terms and conditions to address distinct risks or circumstances presented by the *newly approved insurer* may also be imposed. Such terms and conditions may include but not be limited to, requiring additional claims-paying resources of the *newly approved insurer,* improving the certainty of coverage, or enhancing operational and management controls.

Business Requirements

300 Scope of Business

An *approved insurer* must limit its business activities to the writing of *mortgage guaranty insurance* on loans secured by one- to four- unit residential properties.

Mortgage guaranty insurance issued by Approved Insurers

Non-insurance services

An *approved insurer* must not provide contract underwriting services, or any other services not directly required for providing *mortgage guaranty insurance*, that create a *material*, direct or contingent liability for the *approved insurer*. Additionally, an *approved insurer* may not incur or assume any *material* obligation from or on behalf of any subsidiary or *affiliate* including, without limitation, an obligation to provide additional insurance, or an insurance service or product or to provide a remedy for a liability incurred, in connection with providing contract underwriting or other non-insurance services by such subsidiary or *affiliate*.

Please see the FHFA overview of the *PMIERs* Section V. Request for Input, Scope of Business, for additional questions related to this section's provisions.

301 Organization

An *approved insurer* must be a corporation that is duly organized, ~~continues to be~~ in good standing~~,~~ and ~~duly organized pursuant to, and operating~~ in compliance with~~,~~ *applicable law, except where noncompliance ~~could~~would not ~~reasonably be expected to~~ have a material adverse ~~effect~~impact on the ~~business, property, operations or financial condition of the~~ approved insurer*.

302 Policies, Procedures, Practices

An *approved insurer* must maintain written policies and procedures, developed on the basis of safe and sound industry practices and standards, along with an effective system of internal controls. At a minimum, an *approved insurer* must have policies and procedures that address the following:

1) The underwriting of insurance risk including the evaluation of borrower creditworthiness, property valuation, and *delegated underwriting*;
2) The timely and accurate payment of mortgage insurance claims;
3) The prevention and investigation of fraud;
4) The activities for monitoring and testing the quality of underwriting and claims administration (including loss mitigation); and
5) The management of risk including risk dispersion, credit portfolio management, and customer management.

303

When not specified otherwise in *applicable law*, an *approved insurer* must comply with the

Rebates, Commissions, Charges, and Compensating Balances

rebates, commissions, charges and compensating balance requirements found in the *Model Act*, Section 13 - Rebates, Commissions and Charges, Section 14 - Compensating Balances Prohibited, and Section 15(B) - Conflict of Interest, provided however that an approved insurer may for competitive purposes quote different rates to insureds under any applicable flexible rate filings not disapproved by state insurance departments. An *approved insurer* must notify the *GSE* in writing *immediately* upon its determination of *material* noncompliance with these requirements.

Comment [A3]: The industry currently uses flex rates (plus or minus 25% of a base rate) for competitive purposes, typically based upon insured characteristics or market conditions. Such flex rates can result in market competition and lower MI rates. However, Section 13.C. of the Model Act prohibits quoting a rate to a lender that is different than that currently available to others for the same type of coverage. We believe that, within the 25% flex band permitted by state DOIs, rate competition is beneficial for insureds and should not be prohibited.

304

[Section Intentionally Left Blank]

305 Separation of Responsibilities

An employee of an *approved insurer* whose responsibilities include sales for the *approved insurer* must not underwrite or approve insurance on mortgages. Excluded from this restriction are *officer*s accountable for: a) sales; and b) underwriting, credit risk management, counterparty risk management or other risk management functions.

306 Master Policies

Master policies must be submitted to the *GSE* for approval prior to use. Any proposed changes to an existing *master policy* covering any loan the *GSE* owns or guarantees, or that will cover a loan intended for sale to the *GSE*, must be approved in advance and in writing by the *GSE*. Any request for approval of such a proposed change must be submitted in writing at least 60 days prior to its proposed effective date. The GSE must provide a written response to such request within 30 calendar days of its submission. This includes any proposed *master policy* change, whether by endorsement, ~~customer bulletin,~~ letter agreement, or any other form of agreement or commitment, with or without consideration that alters the terms of, or the rights of the parties under, the *master policy*.

The *GSE* must be able to rely on the *approved insurer* to pay all valid claims, when due, in accordance with the terms of the *master policy*. *Master policy* interpretation and claims administration should be reasonable, clear, fair and consistent. The *approved insurer* must actively pursue perfection of claims and expeditiously conduct claims investigations to ensure prompt settlement of claims.

307 Settlements and Changes to *GSE* Rights

An *approved insurer* shall not, without ~~the *GSE's* prior written approval~~a prior written response from the GSE, which response must be issued within 60 days of submission by an approved insurer of a request for approval, enter into any agreements pertaining to the *GSE's* loans (including any loss sharing, indemnification, settlement or compromise agreement) that: (i) retroactively or prospectively waive, suspend, or otherwise alter the *approved insurer's* rights to investigate loans, rescind or deny coverage, or settle claims on one or more specified loans; (ii) expand or alter the *approved insurer's* right to rescind, as in cases where rescission is triggered by an event unrelated to loan eligibility, compliance with underwriting requirements, or breach of policy representations and warranties (e.g., rescission triggered by failure of *mortgage enterprise* to fund a *reinsurance* entity); or (iii) otherwise affect one or more loans owned or guaranteed by the *GSE.* Notwithstanding the foregoing, an *approved insurer* does not need to obtain the *GSE's* prior written approval for the settlement of a claim on a single loan in the ordinary course of business, provided that in connection with such settlement, the *approved insurer* does not receive any financial consideration independent of any claim adjustment that is otherwise supported by the terms

of the *approved insurer's master policy.*

308 Diversification Policies

An *approved insurer* must have a documented risk diversification policy and employ risk management tools and techniques to avoid concentrated risk exposures in the *risk in force* the *approved insurer* insures. Segments of business for which concentrations should be monitored and managed include, but are not limited to, loan products and programs, geography, customers, and source of business (e.g., retail, wholesale, correspondent). The *approved insurer* must establish geographic concentration limits that, at a minimum, are in compliance with the *Model Act*, Section 5 - Geographic Concentration.

An *approved insurer* must monitor and report, at least quarterly, its risk concentrations to its *senior management* team. If the *approved insurer* determines that any concentration limits established by its risk diversification policy have been breached, the *approved insurer* must determine the cause of the breach and develop an action plan. To the extent the breach develops due to natural market dynamics (such as origination and/or prepayment phenomena), the *approved insurer* must review among other things, its geographic mix, product type, marketing, customer base and pricing and, as part of its action plan, implement steps to bring the breaches within its policy parameters. *Senior management* must review and approve the action plan prior to implementation. The action plan must be available and provided to the *GSE*.

309 Claims Processing

An *approved insurer* must maintain a standard claims processing and servicing guide posted on its websites. Updates must be communicated to *insureds* with specific timelines for implementation. The *approved insurer* must provide to the *GSE* specific requirements and information related to its claim review and settlement processes including the following:

1) Documentation required to be provided in the claims submission process;
2) Claims status and timelines, including communication that the *approved insurer* will provide to the servicer during the claim review, with respect to non-perfected claims;
3) ~~Corporate p~~Policies and/or procedures related to:
   a) Claim payments,
   b) Claim rescissions,
   c) Claim denials,
   d) Claim curtailments,
   e) Appeals of rescissions, claim denials, or cancellations of coverage.

An *approved insurer* must either: a) pay or deny a claim, or b) rescind coverage, within 180 days of the *claim perfection date*, and, in any event, the *approved insurer* also must rescind or deny a claim that is not perfected by 120 days from the claim filing date, except to the extent a *master policy* expressly requires the *approved insurer* to take any of the foregoing actions within lesser periods of time, in which event the timeline prescribed in the *master policy* shall be followed.

310
Loss Mitigation

Approved insurers should provide a full delegation to the *GSE* for retention and liquidation loss mitigation alternatives. Any revision to an existing retention and liquidation loss mitigation alternatives or any new retention and loss mitigation alternative proposed by the GSE (i) should provide a benefit to both the GSE and an approved insurer and (ii) shall be submitted to an approved insurer at least 60 days prior to its proposed effective date for comment and review by an approved insurer. Loans insured by *approved insurers* that do not provide full loss mitigation delegations may be subject to a pricing adjustment when acquired by the *GSE* to reflect higher potential loss management costs. If an *approved insurer* does provide for full delegation, (i) it should make it clear in its servicing guidelines that servicers should follow the loss mitigation protocols and requirements of the *GSE and (ii) it may require that a servicer provide monthly retention and loss mitigation status reports to an approved insurer with respect to loans insured by that approved insurer*.

310
Loss Mitigation (continued)

To the extent an *approved insurer* does not provide the *GSE* with full delegation of loss mitigation, the a*pproved insurer* must conduct its loss mitigation and claims management operations according to the terms of the *master policy* and supporting documents. In addition, these *approved insurers* must provide service-level agreements that specify loss mitigation decision timelines. Those decision timelines must be no longer than the terms of the *master policy* and must be approved by the *GSE.*

311
Lender and Servicer Guidelines

A*pproved insurers* must maintain transparent and accessible lender and servicer guidelines on the *approved insurer's* website which reflect its standard business practices and include, but are not limited to, the following business functions:

1) Underwriting and loan eligibility, and
2) Default management.

Guidelines that should be accessible on the *approved insurer's* website include, but are not limited to, the following:

1) Loss mitigation standards for default management that clearly define servicer obligations. The guidelines should provide examples of actions, or inactions, which might lead to claim curtailments or denials.
2) Loss mitigation standards for borrower contact, collection practices, and required documentation.
3) Requirements and protocols for loss mitigation workouts delegated to servicers, that cover the following alternatives to foreclosure:
   a) Loan modifications,
   b) Pre-sales,
   c) Third-party sales,
   d) Deeds in lieu of foreclosure.
4) Claims administration

312
Policies of Insurance

An *approved insurer* must maintain business insurance for Fidelity Bond and Errors & Omissions at all times. The coverage amount for each policy must be no lower than $5 million dollars with a deductible amount not to exceed $~~150,000~~25,000,000.

Comment [A4]: Self-insurance by an established approved insurer or affiliate (established being at least 3 years after the approval by the GSE as an approved insurer) should be permitted. Alternatively, in the case of commercial insurance, a commercially reasonable deductible of $25 Million, which would be significantly higher than the amount proposed ($150,000, which is not commercially feasible or reasonable) should be permitted.

313
Insurance Data Reconciliation

The GSEs and ~~A~~an *approved insurer* must ~~periodically~~ at least annually (and more frequently if agreed upon by the GSEs and an approved insurer) ~~complete~~ undertake a data exchange and reconciliation ~~process with the *GSE*,~~ in accordance with the *GSE's* requirements, including those set out in the *PMIERs*. Such process shall include providing to the *GSE* any data, reports and other information specified by the GSEs and exchanged between an *approved insurer* and an *insured* relating to any loan(s) owned or securitized by the *GSE*, which also must be provided to the *GSE* upon its request. The GSE will provide an approved insurer the results of its review of such data, reports and other information to permit the approved insurer to reconcile and update its records.

314
Business Continuity Planning

An *approved insurer* must maintain business continuity plans and test such plans periodically to ensure that the *approved insurer's* business operations are sustainable in the event of disaster or other event requiring the activation of a business continuity plan.

315
Document Retention

An *approved insurer*, and any *exclusive affiliated reinsurer*, must retain documents and records that are necessary to demonstrate that it has met these *PMIERs* on an ongoing basis. Documents must be retained in accordance with the requirements of *applicable law* for document retention. In the absence of any such requirement, such documents must be retained for a period of at least three (3) years.

An *approved insurer*, and any *affiliate* of a ceding *approved insurer* with the sole purpose of providing *reinsurance* for the ceding *approved insurer*, is required to maintain records of claim denials, rescissions, policy cancellations and partial settlements in accordance with the requirement stated above. These records must also indicate the percentage and dollar amount of partial settlements, the amount of any claim denial, rescission or policy cancellation, as well as the reason for these actions.

The files related to each settled claim must contain information and documentation necessary to show that losses were computed pursuant to requirements of the *master policy*.

The *mortgage payment record* must be maintained by either the *approved insurer* or the *insured*. If the *insured* maintains the record, the *approved insurer* must establish servicing guidelines requiring the *insured* to employ adequate controls documenting the maintenance and quality of mortgage payment records. Records or documents may be created or retained in electronic form without storage of paper hard-copies, provided that they are retained and remain recoverable for the time required hereunder.

Policy Underwriting

400
Overview

As a credit enhancement provider to the *GSE*, an *approved insurer* or its *delegated underwriter* must underwrite and understand the credit risk it insures (both borrower and property), and must have appropriate controls and procedures to ensure underwriting decisions, whether made by its staff or by its *delegated underwriter*, are sound and consistent with its guidelines. An *approved insurer's* determination of the acceptability of a loan's credit risk prior to insuring a loan, or in the case of *delegated underwriting*, as close in time to mortgage origination and insuring a loan as possible, is a foundational requirement of the *GSE*. An *approved insurer's* compliance with its underwriting practices and procedures will be audited by the *GSE.*

An *approved insurer*'s underwriting guidelines should be applied consistently to each borrower, regardless of race, color, religion, national origin, age, sex, marital status, familial status, or disability. Without limiting the generality of any *approved insurer* obligation under Section 101 of the *PMIERs*, the *approved insurer* must comply with all *applicable law* related to its underwriting practices.

401
Evaluation of Loan Eligibility and Borrower Credit-worthiness

An *approved insurer* or its *delegated underwriter* must, prior to insuring a loan, determine the creditworthiness of the borrower and the eligibility of the loan under its underwriting guidelines.

The *approved insurer* or its *delegated underwriter* must determine that the borrower has established an appropriate credit history, sufficient capacity and sufficient assets to establish a reasonable expectation that the borrower will make timely repayment of the loan being insured. The determination of creditworthiness should be made with specific consideration of the characteristics of the mortgage and repayment terms, and be based on a thorough evaluation of all pertinent credit information. An *approved insurer* may not insure any mortgage for which such determination has not been completed.

The *approved insurer* must maintain a list of underwriting documents that it may rely on to underwrite each loan. This list should be consistent with those listed in the *master policy* (or other document that references the *master policy*) under which the loan is insured. The list, along with a historical record of changes made to the list over time, must be maintained so that it is available to all parties that have an interest in the insurance or the loan.

402
Property Valuation

The *approved insurer* must establish a methodology for reviewing property valuations that will allow the *approved insurer* or its *delegated underwriter* to determine that the subject property is of sufficient market value to support the decision to insure. Such methodology should specifically address properties located in a soft or declining market.

An *approved insurer's* risk management controls must include a procedure for re-verifying property values in the event that an appraisal (or other forms of property valuations) is suspected of being fraudulent or unsubstantiated.

403
Delegated Underwriting

Approved insurers may utilize *delegated underwriting* provided that the *approved insurer* has established a system of controls and safeguards that will be audited by the *GSE*, including, but not limited to, a lender approval and monitoring process, and a quality control (QC) program to ensure compliance with the *approved insurer's* underwriting standards.

Delegated underwriting authority should be given only to lenders that have an established track record of originating high-quality loans or have demonstrated to the satisfaction of the approved insurer, after due diligence, that the approved insurer, has the competence to originate high quality loans. The *approved insurer's* QC program must be designed so that loans underwritten by *delegated underwriting* lenders receive a high degree of scrutiny and have a process to address lenders that do not comply with the *approved insurer's* quality standards.

In its determination of whether to issue a certificate of insurance, a *delegated underwriter* may use an *AUS* recommendation where an *approved insurer* has previously concluded that the particular *AUS's* recommendations are generally aligned with the *approved insurer's* independent credit risk guidelines as evidenced by that *approved insurer's* risk review process, and demonstrably supported by the analysis referenced in Section 404 below. This is the case even though the *delegated underwriter* may be able to rely on an *AUS* recommendation in its role as the lender making a determination on whether to extend credit.

An *approved insurer's* management of its *delegated underwriting* program and its significance in the *approved insurer's* business plan will be considered by the *GSE* when assessing the counterparty risk of the *approved insurer*. (Refer to Chapter 5, Quality Control, Sections 500-504 and Chapter 6, Lender Approval and Monitoring, Sections 600-602 for requirements and guidelines)

404
Use of Automated Underwriting Systems

If an *approved insurer* wants to use a third-party *AUS* recommendation (a) for its own purposes, or (b) as part of a *delegated underwriter's* underwriting of loans insured by the *approved insurer*, then, in either instance, the *approved insurer* must utilize a risk review process which includes an analysis (subject to audit by the *GSE*) which ensures that the recommendations of that *AUS* are aligned with the *approved insurer's* independent credit risk guidelines, including those germane to any subsequent *AUS* model version updates.

This analysis would provide the basis for the *approved insurer* or its *delegated underwriter* to use the AUS recommendation, rather than requiring the performance of full "manual" underwriting in either such instance.

Examples of the types of analysis that could be conducted include but are not limited to:

- A statistical validation of recommendations provided by the *AUS* in question to establish their consistency with the *approved insurer's* credit risk tolerances, internal risk modeling, and any overlay requirements, and
- An analysis of a population of randomly selected loans for which the *AUS* has generated recommendations that compares the consistency of the *AUS* recommendations to the credit determinations made by lenders through manually

underwriting the loans.

404
Use of Automated Underwriting Systems (continued)

In no event shall an *approved insurer* permit the use, whether by its own underwriter or by a *delegated underwriter*, of an *AUS* recommendation in its determination as to whether to issue a certificate of insurance unless and until the *approved insurer* has first subjected that *AUS* to the *approved insurer's* risk review process, including the analysis illustrated above. If, at any time thereafter, the *approved insurer's* analysis suggests that *material* discrepancies exist between its own risk management policies or credit risk guidelines and the *AUS* recommendations, the *approved insurer* must take appropriate steps to address these discrepancies, which would include adding eligibility overlays or discontinuing the use of that *AUS's* recommendations.

405
Independent Validation for Early Rescission Relief

An *approved insurer* that opts to grant rescission relief earlier than 36 timely payments in accordance with its *master policy* or endorsements to its *master policy* for borrower/loan eligibility and underwriting defects or collateral eligibility and valuation defects must base its decision on independent validation by the *approved insurer*. In completing its independent validation, the *approved insurer* must review each loan and the review must be completed by a qualified underwriter who ~~has had no association of any kind with (i) the originator, (ii)~~was not involved in the underwriting or origination of the loan~~, or (iii) any individual involved at any point in the underwriting or origination of the loan~~ by the lender.

Comment [A5]: Approved insurers should be required to validate a third-party AUS recommendation prior to using that recommendation. However, for an approved insurer to undertake a meaningful validation, the AUS owner must provide access to the AUS's decisions for a comprehensive sample set of loan level data submitted by an approved insurer, must commit to providing an approved insurer with timely and complete information regarding changes to the AUS and must agree to conduct the validation exercise on a regular basis (perhaps annually). It is Genworth's current practice to validate every third party AUS on which we rely, including Loan Prospector (LP) and Desktop Underwriter (DU), but our validation would be constrained if the GSEs and other third parties are not willing to conduct the statistical sample set validation that we are recommending. We urge FHFA and the GSEs to implement this best practice going forward.

500
Quality Control Program Requirements and Standards

An *approved insurer* must maintain a quality control (QC) program to assess the effectiveness of its underwriters and that of its *delegated underwriting* programs. The goal of an effective review process is to monitor adherence to the *approved insurer's* underwriting guidelines, ensure the accuracy of the mortgage data being relied upon, and prevent insuring fraudulent mortgages or mortgages with other deficiencies including faulty underwriting or insufficient documentation.

While there is no one specific QC program that can meet the needs of all *approved insurers*, certain common characteristics can be found in all effective QC programs. Examples of these industry best practices are captured in the *GSE's* Selling Guide and Quality Control Best Practices documents, which can be found on the *GSE's* website. However, at a minimum, an *approved insurer*'s QC program must incorporate the following elements:

1) Operate independently from the sales and underwriting functions.
2) Be effective in determining that the insured mortgages were properly underwritten and consistent with the *approved insurer's* underwriting guidelines.
3) Include standard reporting (as referenced in Section 504) that identifies opportunities for improvement, training, or other corrective actions that are communicated on a regular basis to the *approved insurer's senior management* and its lender customers.
4) Employ a loan selection methodology and frequency that meets the requirements of Section 503 hereof.
5) Monitor overall quality by source of business (e.g., retail, wholesale, broker, other).
6) Review declined applications for insurance to determine whether there is adequate support for those decisions.
7) Be in writing with documented operating procedures that incorporate the following:
    a) A clearly defined scope and purpose of the review, noting differences between underwriting versus claims reviews.
    b) The establishment and maintenance of a red-flag checklist for potential fraud.
    c) A well-defined process for establishing and managing corrective actions such as notification to the *approved insurer's* management, additional training for underwriting staff, or the removal of a lender's *delegated underwriting* authority.
    d) The utilization of third-party resources that can be applicable to the QC process, such as fraud detection tools.
    e) A threshold *QC defect* rate that triggers the need for corrective actions.
    f) A clear methodology to establish corrective actions should a *QC defect* rate rise above a threshold level requiring corrective action.
    g) Prompt identification of loan defects and subsequent actions taken to address and remediate patterns of loan production issues before loans qualify for rescission relief under the *master policy*.

500 Quality Control Program Requirements and Standards (continued)

h) Documented governance criteria and process for making and approving revisions to the *approved insurer's* QC program.

On an annual basis, the *approved insurer* must submit to the *GSE* a copy of its QC program with any changes noted from the prior year's version.

501 Pre-Closing Review Guidelines

The *approved insurer* should consider including as part of its QC program procedures for a pre-closing review of mortgages underwritten through a non-delegated channel for which a commitment to insure has been issued prior to closing of the mortgage. This review may utilize automated tools or other methods including information from third-party tools that screen for fraud and misrepresentation.

502 Post-Closing Review Requirements

The QC program must include procedures for the post-closing review of selected mortgage loan files for which the *approved insurer* has issued mortgage insurance coverage to ensure that the loans closed with the terms and risk characteristics as originally accepted by the *approved insurer*'s ~~or its~~ *delegated underwriting* lender. In performing the loan file review, the *approved insurer* must evaluate the quality of the documentation and whether the underwriting decision conforms to, and is consistent with, the *approved insurer's* underwriting guidelines. The QC post-closing loan file review must, at a minimum, include the following:

a) A review of insured loans that were underwritten through ~~both delegated and non-delegated channels, as well as non-~~ the delegated channel ~~loans that were denied coverage~~

b) The evaluation and, if applicable, re-verification of the following information for the selected loans:

 i. income;
 ii. employment;
 iii. assets to meet reserve requirements;
 iv. appraisal report or property valuation data; and
 v. credit reports.

The post-closing QC loan file review results, including any findings, must be documented and reviewed with the *approved insurer's senior management* and, if appropriate, the originating lender.

Comment [A6]: The draft PMIERs require that both delegated and non-delegated loans be sampled for a similar post closing review. The requirements for evaluation and re-verification are both valuable and necessary for ensuring the continued high quality of mortgage originations; however, the timing of these reviews should be expanded for non-delegated loans to allow these activities to occur pre-closing. During a non-delegated underwrite, the full loan file is submitted to the approved insurer for underwriting and during that process, loans are selected for audit on both a random and discretionary basis for review as required. This process also includes re-verification if applicable. Notwithstanding the provisions of Section 405 that require independent validation for early rescission relief, requiring this same depth of post-closing review that occurred pre-closing is redundant and would incur unnecessary cost and process challenges for both an approved insurer and its lender partners. Re-verification of loan information provided to the approved insurer for non-delegated underwriting is an important tool to ensure a loan closed and was delivered to a GSE as expected. We suggest an efficient way to conduct this data re-verification is to include pertinent loan data in a loan level reconciliation file to be shared with the approved insurer. With this file, the approved insurer can compare its underwriting data for both delegated and non-delegated loans to the GSE loan delivery data and perform additional reviews on any outliers. The combined process of higher level pre-closing review for non-delegated loans and a post-closing data re-verification using the GSE reconciliation file would continue to ensure the origination and insurance of high quality underwritten files. As a practical matter, we are not able to conduct a post-closing review of non-delegated loans that have been declined for mortgage insurance. If we do not insure the loan, we will not have the right to require a lender to submit a loan file to us for review. The requirement to complete the QA reviews within 120 days of closing will require a change from our current practice of sampling delegated lenders over a three month period to smooth out monthly volume and process variation to a practice of conducting QA reviews one month after closing. This will result in more loans having to be sampled than we think is necessary to have a robust QA process, leading to increased costs without any meaningful improvement in audit accuracy. This will have a disproportionate impact on smaller lenders that submit lower volumes to an approved insurer. We recommend a timeline that requires reviews to be completed no later than 12 months following the insurance effective date.

503 Loan Selection Requirements

An *approved insurer's* QC program must employ both a random selection and a discretionary selection to effectively monitor the overall quality of its newly written insurance.

For random selections (i.e., non-discretionary samples), sampling techniques must ensure that every type of insurance, origination source, program, property type, etc. is eligible to be selected for review. The samples selected must include insured loans that are representative of an *approved insurer's* full scope of business written during the period being audited.

503
Loan Selection Requirements (continued)

An *approved insurer* must use a random sampling methodology for determining the sample size that produces at least a 95% confidence interval with no more than a 2% margin of error when measured on an annual basis. The *approved insurer* must document how its sample size and loan file selections were determined for each selection set of loans and must provide to the *GSE*, upon its request, such documentation supporting the validity of the *approved insurer's* sampling methodology. The approved insurer's post-close QC review of loans sampled through its random selection process must be completed no later than ~~120 150 days~~ twelve months following the latest insurance coverage effective date of the selected loans.

Comment [A7]: We have assumed that the insurance coverage effective date is the loan closing date.

For its discretionary reviews, an *approved insurer* must review 100% of the loans it insures that become delinquent within 12 months following the insurance coverage effective date ~~early payment defaults~~. In addition, the *approved insurer* should consider including in its selection for discretionary reviews loans that fall into the following categories:

1) Loans with layered risk characteristics;
2) Loans associated with a new loan type or new insurance product;
3) Loans subject to concerns about delinquency rates or patterns of defects identified in previous QC reviews;
4) Loans underwritten by a specific *delegated underwriter*;
5) Loans underwritten by staff members with limited underwriting experience;
6) Loans underwritten by lender(s) with a pattern of originating loans with high-risk characteristics; and
7) Loans underwritten or originated by lenders with a history of fraud or early prepayment.

A critical component of an *approved insurer's* QC program is the establishment and tracking of metrics and tolerances to quantify and compare the performance of its internal underwriting processes and those of its customers. To that end, *approved insurers* must calculate *QC defect* rates for all reviewed loans, loans underwritten on a non-delegated basis, and loans underwritten through an *approved insurer's delegated underwriting* program. An *approved insurer* must establish a maximum *QC defect* rate threshold for its random selection reviews. There is no corresponding threshold rate for defects identified through discretionary reviews. All such defects must be promptly addressed with the appropriate underwriting function to correct the underlying causes of the defect.

The *QC defect* rate threshold should be set by the *approved insurer,* subject to the *GSE's* review, taking into consideration the nature and circumstances of its overall business, its risk tolerances, the individual lenders with which it conducts business, and industry practices. The *approved insurer* should periodically reassess the threshold level with the goal of minimizing the threshold level over time.

If the *approved insurer's QC defect* rate threshold is exceeded, prompt action must be taken to ascertain any underlying cause(s) responsible for the breach (see Section 505 – Corrective Actions). Based on its assessment, the *approved insurer* must develop an action plan (or document why one was not necessary) to correct the underlying causes driving the breach. In addition, the *approved insurer* should establish triggers for how long its *QC defect* rate may remain elevated before pursuing corrective actions.

504
QC Reporting Requirements

QC findings are a basis for ongoing feedback to lenders and the *approved insurer's* underwriting staff. They also constitute a key component of the *approved insurer's* efforts to detect fraud and ineligible loans. The QC program should include regular reporting of findings to the *approved insurer's senior management*, including the management of the following business areas: risk management, underwriting, sales and operations. The QC reporting should be consistent in frequency with the QC review process. However, there must be *immediate* reporting to senior management in the event that a pattern of fraud or other similar activity, including but not limited to, misrepresentation, misstatements, omissions, or data inaccuracies is suspected as specified in the *master policy*.

The QC reporting must include, but is not limited to, the following:

- Findings, defects, *QC defect* rates and other issues resulting from the *approved insurer's* QC review process.
- Identification of the completed random and discretionary selections and the QC review results associated with each sample type.
- Timeliness of reviews, backlogs, or other process issues.
- Results of investigations of suspected or confirmed cases of intentional, *material* misstatement, misrepresentation, omission or data inaccuracy.
- Number and type of underwriting exceptions granted by the *approved insurer*.
- *QC defect* rate and findings reported separately for all significant lender customers and in aggregate for delegated and non-delegated programs.
- Trending of QC results to monitor the development of adverse trends.
- Performance of loans with previously identified *QC defects* where coverage was not rescinded or cancelled.
- Status tracking of all outstanding corrective action plans established to address either internal or customer findings.

The *approved insurer's senior management* and relevant business areas must review the results of the report findings within 30 days from the completion of the QC reviews, and must promptly implement any related action plans.

The *approved insurer* must provide to the *GSE* a summary reporting on its *QC defect* results on a quarterly basis. The *QC defect* rate, along with other performance metrics, will be monitored by the *GSE* through the *approved insurer* performance scorecard.

505
Corrective Actions

Once *QC defects* are identified that require corrective actions, the *approved insurer* must have a process in place to assess the *QC defect* to determine its root cause. Appropriate corrective actions must be pursued in a timely manner to remedy the identified *QC defect*. Corrective action plans must be developed and documented with specific timelines for completion and verification. For issues specific to a particular lender, the *approved insurer* must document its communication with the lender concerning that issue(s).

Examples of potential QC corrective actions include but are not limited to:

505 Corrective Actions (continued)

- Use of discretionary sampling to provide greater insight as to the extent of the issue such as expanding the selection of loans with similar characteristics;
- Increased sampling rates or frequency of QC reviews;
- Enhanced staff or customer training;
- Implementation of process controls or process redesign;
- Strengthening of policies or procedures;
- System enhancements or other technology solutions;
- Engaging a third-party to conduct an independent review of the *approved insurer's* QC process including its sample selection processes;
- Restrictions on or the outright suspension/termination of a lender's *delegated underwriting* authority; and
- Restrictions on products or programs offered to a particular lender.

506 Internal Audit and *GSE* Onsite Review

The *approved insurer* must have an independent internal review process to check general compliance of the QC Program with the *approved insurer's* own guidelines and practices. The *GSE* may conduct on-site reviews to audit policies, processes, and practices of the *approved insurer.* The *approved insurer* must grant the *GSE* access to all underwriting and associated QC files that are part of or applicable to any loan owned or securitized by the *GSE*.

Lender Approval & Monitoring

600 Lender Approval Guidelines

In addition to the requirements stated under Section 602, *Delegated Underwriting Approval and Monitoring Requirements*, an *approved insurer* must have and apply written standards and procedures for evaluating and approving the lenders from whom they receive requests to insure mortgage loans. These procedures must be applied to all lenders regardless of the *mortgage guaranty insurance* coverage type, delivery method or transaction type, and should include steps sufficient to allow the *approved insurer* to understand the quality of the lender's origination and servicing practices. The level of inquiry and information reviewed may vary depending on the scope and level of business with the lender. The *approved insurer's* review must include consideration of the following areas:

- The lender's underwriting and loan manufacturing process, including the experience of its mortgage underwriters, its reliance on third-party originators, and its use of *automated underwriting systems*.
- The lender's appraiser and broker/correspondent approval and monitoring processes.
- The lender's fraud prevention controls.
- The lender's historical loan performance.

601 Lender Monitoring Guidelines

An *approved insurer* must monitor the quality and performance of its lenders and their originations. Management should receive regular monitoring reports about each significant lender relationship. Effective reporting should aid the *approved insurer's* management in making informed decisions when remediation is required to address any lender deficiencies, or when it may be appropriate to reconsider a lender's approval status.

Following are some indicators of a lender's overall performance to be evaluated by the *approved insurer*:

- Volume of business and market share trends;
- Delinquency information, including a separate metric just for early payment defaults;
- Underwriting reject rates;
- Servicing problems or trends;
- Underwriting errors and approved variances
- QC results and defect rates;
- Tracking of any performance issues and their resolution
- Changes in key personnel, such as senior management, or those underwriting or servicing insured mortgages;
- Changes in loan payoff activity;
- Profitability analysis and peer comparison; and
- Diligence and effectiveness of loss mitigation efforts.

The type and extent of monitoring expected by the *GSE* to be performed by the *approved*

601 Lender Monitoring Guidelines (continued)

insurer directly relate to the amount of risk it is taking from a particular lender. This will vary with volume, type of loans insured, geographic location and servicing characteristics.

602 Delegated Underwriting Approval and Monitoring Requirements

The *GSE's* risk review and assessment of the *approved insurer's* lender approval and monitoring process will also consider the *approved insurer's* management of its *delegated underwriting* program and how that *delegated underwriting* program is incorporated into the *approved insurer's* overall business plan and corporate strategy.

Approval

If the lender is performing *delegated underwriting* for the *approved insurer,* the *approved insurer* must perform an adequate level of due diligence, incorporating an assessment of the areas mentioned in Section 403, *Delegated Underwriting*, sufficient to ascertain whether the lender is capable of meeting the *approved insurer's* quality expectations. In determining compliance with its underwriting standards, an *approved insurer* may not rely solely on a lender's representations and warranties.

Monitoring

The overall performance of an *approved insurer's delegated underwriting* loans must be tracked separately, by lender, from other insured loans.

Financial Requirements

700 Meeting Financial Requirements and State Compliance

An *approved insurer* must meet all financial requirements set forth in these *PMIERs* as a condition of initial and continued status as an *approved insurer*, unless otherwise directed by the *GSE* in writing. The *GSE's* initial and continued approval of a mortgage insurer will depend on multiple factors in addition to the financial requirements. An opinion (of the *approved insurer* or otherwise*)* that a basis for remedy of the noncompliance exists or that the period of noncompliance is expected to be brief does not change the determination that the noncompliance is *material.*

701 Sources and Diversification of Capital

The *approved insurer* should have financial flexibility and broad access to multiple sources of capital such that it has the ability to: (1) fulfill all *mortgage guaranty insurance* commitments, (2) obtain additional capital if required, and (3) remain adequately capitalized at all times. The *GSE's* evaluation of the *approved insurer's* financial flexibility will include, but is not limited to, assessment (with stress-testing and solvency analysis) of existing sources of capital (such as statutory assets, contingency and other reserves, premium flows and investment income), credit losses and operating expenses, analyses of cash flow coverage ratios, leverage metrics, and future capital-raising ability.

Approved insurers must establish and maintain a capital plan that, at a minimum, forecasts its future financial requirements as determined under these PMIERs based upon projections, including expected future business, in terms of premiums, risk in force, investment returns and reserves for delinquent loans under both expected and stress economic scenarios. The stress scenario should employ macroeconomic assumptions consistent with the Federal Reserve's Comprehensive Capital Analysis and Review "severely adverse scenario." The plan must also contain contingencies for raising additional capital in anticipation of any projected shortfall. The capital plan will be subject to review upon request by the *GSE*. Such contingency plans may include but are not limited to the following:

- Equity or debt capital raised from a broad investor base such as a public offering.
- *Capital support agreements* – capital support arrangements must be explicit such that the holding company or other third-party affirmatively and irrevocably agrees to contribute additional capital to the *approved insurer* as necessary. The following are the applicable requirements governing the use of *capital support agreements*:
    - A *capital support agreement* or any changes thereto must be approved in advance by the *GSE*, and the *GSE* will evaluate agreements for terms, timing, and ultimate strength of support.
    - A *capital support agreement* must be available at all times and enforceable by the *GSE,* the *approved insurer's domestic state insurance regulator*, or a receiver in the event of an insolvency of the *approved insurer*. Such agreements may not be terminated as it relates to the support of the *approved insurer's* existing obligations without the *GSE's* approval.
    - An *approved insurer* must also notify the *GSE,* its *domestic state insurance regulator,* and any *rating agency* from which the *approved insurer* receives a rating, in advance of any change in such agreement(s) that could have a *material* impact on the *approved insurer's* financial and/ or operational condition, strength of the support agreement, or the value of the *mortgage*

701 Sources and Diversification of Capital (continued)

guaranty insurance provided to the *GSE*, or *immediate*ly in the event of any *material* adverse change in the financial condition of the providers of such agreement(s).

- The terms of a *capital support agreement* must include the following:
    - Explicitly defined trigger events for activation of support that are designed to trigger prior to any shortfall of *available assets* relative to *minimum required assets*;
    - Sufficient duration of support ensuring the availability of capital when needed; and
    - Termination provisions that continue to provide value to the *approved insurer* through any stress event.

- *Affiliated* entity agreements such as:
    - Capital maintenance, and
    - Minimum net worth.
- Unconditional (standby) letters of credit with trigger events for activation of support.
- *Reinsurance* with non-*affiliated* or non-exclusive *affiliated* entities, subject to the *GSE's* approval and *reinsurance* eligibility guidelines.

702 Minimum Total Policyholders' Surplus

All *approved insurers* must meet and maintain a minimum *total policyholders' surplus* not less than that amount required to comply with *applicable laws*.

703 Third-Party Opinion and Risk Analytics

~~Should~~If, and for so long as, an approved insurer fails in any material way to comply with any of the financial requirements set forth in Chapter 7, Financial Requirements, of these PMIERs, such approved insurer must provide immediate~~ly~~ written notice to the GSE of any such failure. In such case, ~~T~~the *GSE* may require an *approved insurer* to obtain a third-party opinion or analysis, (no more frequently than annually) ~~when~~ for as long as ~~an approved insurer is in such material non-compliance,~~ an approved insurer is in such material non-compliance prepared at the *approved insurer's* request and expense~~,~~ by a *third-party risk analytics firm* ~~selected~~ approved by the *GSE*.

Should the GSE require that an ~~appvoed~~approved insurer obtain a third party opinion or analysis, it shall so inform the approved insurer within 30 days of its receipt of the notice referred to in this section 703. The third-party opinion or analysis shall express an opinion on the adequacy of an approved insurer's unpaid claims liabilities, as well as validate the approved insurer's reported available assets to ensure compliance with the financial requirements set forth in Chapter 7 of these PMIERs.

Once an approved insurer has been so informed, it must provide the GSE with the required third party opinion or analysis no later than 90 days thereafter.

Comment [A8]: Obtaining a third party actuarial opinion or analysis is an expensive and resource intensive undertaking that should only be required in the event an approved insurer is in material non-compliance with the financial requirements in Chapter 7, Financial Requirements, of these PMIERs.

704 Available and Minimum Required Assets

Financial adequacy is measured and represented by each *approved insurer* quarterly using a risk-based evaluation comparing *available assets* to *minimum required assets*. As discussed in Section 100, a member of the *approved insurer's senior management* team must certify that the *approved insurer* meets the requirements set forth below.

An *approved insurer* must maintain sufficient capital resources such that its *available assets* meet or exceed its *minimum required assets. Available assets* are defined to include the liquid investments that are readily available to pay claims, and include the most liquid investments of an *approved insurer*. Future *mortgage guaranty insurance* premium revenue is generally not considered in *available assets*, except to the limited extent described below for policies written prior to 2009.

Available assets for an *approved insurer* are calculated as the sum of its:

704 Available and Minimum Required Assets (continued)

- Cash (such as those currently listed on an *approved insurer's* Statutory Statement of Assets, [line 5] in its *convention statement)*;
- Bonds (such as those currently listed on an *approved insurer's* Statutory Statement of Assets, [line 1] in its *convention statement*);
- Common and preferred shares (included at their market capitalization value discounted by 25%) only if:
  - The stock is publicly traded, ~~and~~
  - The *approved insurer* has complete control and authority to sell the shares, and
  - In the case of preferred shares, they are publicly traded or have been rated by the NAIC with a minimum rating of NAIC 2.
- Receivables from investments (such as those currently listed on an *approved insurer's* Statutory Statement of Assets, [line 14] in its *convention statement*); and
- Dividends of subsidiaries (with the GSE's prior written approval) to be paid to the *approved insurer* over a time period that is no greater than:
  - Two years, if unconditionally guaranteed by a strongly capitalized company, as determined by the GSE, with at least an A- rating from either S&P or Fitch, or A2 from Moody's; or
  - One year, if unconditionally guaranteed by a strongly capitalized company, as determined by the GSE, with at least an BBB- rating from either S&P or Fitch, or Baa2 from Moody's; or
  - Another period as approved by the *GSE.*
- The following liquid assets owned by an *exclusive affiliated reinsurer,* if the *exclusive affiliated reinsurer* is both (a) a U.S. domiciled corporation that is regulated as an insurance company; and (b) writes only *mortgage guaranty insurance* or *mortgage guaranty reinsurance*:
  - Cash (such as those currently listed in an exclusive affiliated reinsurer's Statutory Statement of Assets [line 5] in its convention statement, ~~and~~
  - Bonds (such as those currently listed in an exclusive affiliated reinsurer's Statutory Statement of Assets [line 1] in its convention statement; and
  - Common and preferred shares (included at their market capitalization

Comment [A9]: The PMIERs should recognize the cash flow streams arising from contractual obligations to pay premiums for insured loans. Failure to include future premiums is at odds with market accepted principles including actuarially based FHA solvency reporting and with the way that the Federal Reserve's Comprehensive Capital Analysis and Review gives credit to banks for future cash flows from mortgage servicing. Recognizing future premiums has the added benefit of encouraging MI industry pricing discipline, because any decrease in premiums would have immediate impact on an approved insurer's available asset amount. Genworth had undertaken significant back-testing that validates our recommendations. Please see our response to **Question 31** for data regarding Genworth' s premium experience under severe stress (ever-to-date and modeled remaining life) for our 2005 – 2008 book years, demonstrating that even under severe stress, it is reasonable to assume at least four years of premium streams. In addition, our response to Question 31 provides additional data (loss and claims ratios as well as the percentage of claims covered by the premiums) regarding our experience that demonstrates that premiums for a vintage cover a substantial amount of the losses, even under extreme stress. Our data further supports our proposal to include 210 percent of prior y ... [1]

Comment [A10]: Notwithstanding our actual experience under extreme stress, we recognize that dollar-for-dollar recognition of future premiums fails to give effect to the possibility of a capital shortfall or regulatory intervention prior to the recognition of the future premium stream in its entirety. Accordingly, Genworth supports applying to all book years an approach similar to the way that the PMIERs treats premiums for the 2008 and prior book years, with available assets including an amount equal to 210% of the prior year's earned premiums.

Comment [A11]: In addition, for additional conservatism, we support (i) capping the aggregate premiums included as available assets to 35 percent (maximum concentration of total future premiums compared to total available assets) and (ii) when counting future premium attributable to single premium business, capping the amount included at 40 percent of the original unearned premium for any given vintage year. These caps would ensure a private mortgage insurer is not incented to "outrun" possible shortfalls in available assets by imprudently increasing its production on any single book year or product type. For similar reasons, we also ... [2]

Comment [A12]: Additionally, as we note in our response to Question 32, premiums are *not* excluded from consideration under state regulatory calculations. Actuarial analysis required by the North Carolina Department of Insurance to demonstrate claims paying ability in the event of run off include **all** future premiums on existing books of business.

Comment [A13]: An NAIC 2 rating is assigned to obligations of high quality and is comparable to an investment grade rating for publicly rated securities. The NAIC 2 rated preferred shares should receive similar treatment (market capitalization value discounted by 25% as other preferred shares under the PMIER standards).

value discounted by 25%) only if:

- The stock is publically traded, and
- The exclusive affiliated reinsurer has complete control and authority to sell its shares., and
- In the case of preferred shares, are publicly traded or have been rated by the NAIC with a minimum rating of NAIC 2.

Comment [A14]: An NAIC 2 rating is assigned to obligations of high quality and is comparable to an investment grade rating for publicly rated securities. The NAIC 2 rated preferred shares should receive similar treatment (market capitalization value discounted by 25%) as other preferred shares under the PMIER standards.

- The trust balance for any lender *captive reinsurer*, related to loans insured by the *approved insurer.*
- 210% of the *approved insurer's mortgage guaranty insurance* premium net of any amount ceded to a *non-affiliated reinsurer* or *non-exclusive affiliated reinsurer* earned in the prior 12 months on policies written before 2009 (including those subsequently refinanced through the *Home Affordable Refinance Program*).

Less,

- The *approved insurer's unearned premium reserves* (such as currently listed on line 9 of an *approved insurer's* Statutory Statement of Liabilities, Surplus and Other Funds in its *convention statement*).

Minimum Required Assets

Minimum required assets are the greater of $400 million or the *total risk-based required asset amount* as determined in Exhibit A.

705 Ratings Agency Rating

All *approved insurers*, except *newly approved insurers*, must maintain a rating with at least one *rating agency*.

706 Limitations Triggered by an *Available Assets* Shortfall

To preserve capital, the following limitations are triggered when *available assets* fall below *minimum required assets*. Without the *GSE's* prior written approval, following submission by an approved insurer of a written request, an *approved insurer* with an asset shortfall shall not:

- Enter into any new or alter any existing *capital support agreement*, *assumption of liabilities,* or guaranty agreement (except for contractual agree*ments in the normal cours*e of business);
- Enter into any new arrangements or alter any existing arrangements under tax-sharing and intercompany expense-sharing agreements;
- Invest Enter into new investments in *affiliates*, subsidiaries or non-*affiliated* entities or alter existing investments in affiliates, subsidiaries or non-affiliated entities; or
- Enter into any new risk novation or commutation transaction or any new *reinsurance* arrangement or structure.

The GSE must respond in writing to such request for prior written approval no later than

60 calendar days following its submission.

The *PMIERs* should ensure that the *GSE* has the appropriate set of remediation controls aimed at preserving the capital held by an *approved insurer* that experiences a shortfall in *available assets*.

Please see the Overview of Draft Revised *PMIERs*, Section V. “Request for Input, Financial Requirements, Limitations Triggered by an *Available Asset* Shortfall” for additional questions related to how the *PMIERs* should address this issue.

707 Investments in and Capital Support for Other Entities

An *approved insurer* may not have, incur or assume an obligation or indebtedness, contingent or otherwise, including, without limitation, an obligation to provide additional insurance, or related service or product, or to provide remedy to an obligation of a subsidiary.

Moreover, an *approved insurer* must submit a written request to obtain the *GSE's* prior written approval to:

- Permit a *material* change in, or acquisition of, control or beneficial ownership (deemed to occur if any person or entity or group of persons or entities acquires or seeks to acquire 10% or more of the voting securities or securities convertible into voting securities);
- Make changes to the corporate or legal structure involving the *approved insurer*;
- Transfer or otherwise shift assets, risk, or liabilities to any subdivision, segment, or segregated or separate account of the *approved insurer* or any *affiliate* or subsidiary;
- Assume any *material* risk other than directly providing *mortgage guaranty insurance*; or
- Provide capital, capital support, or financial guaranty to any *affiliate* or subsidiary that is either an *approved insurer* or an *exclusive affiliated reinsurer*.

The GSE must respond in writing to such request for prior written approval no later than 60 calendar days following its submission, which approval shall not be unreasonably withheld.

708 *Reinsurance* and *Risk Sharing Transactions*

Approved insurers must obtain prior written approval of the *GSE* to enter into any new or alter any existing *reinsurance* or *risk sharing transaction* other than those permitted that relate to; a) *exclusive affiliated reinsurers* described below, or b) *risk sharing transactions* with a *GSE*. For any *risk sharing transaction* executed with a *GSE, approved insurers* must provide notification concurrent with the public disclosure of such transaction. The *approved insurer* must obtain statutory and regulatory accounting credit for the risk transfer and provide upon the *GSE's* request documentation supporting the conclusion that the transfer of risk is appropriate from both an accounting and regulatory perspective. The *GSE* may apply an alternative reduction in *risk-in-force* in determining *minimum required assets* than that permitted by the applicable regulator or accounting rule. The financial impact on the *approved insurer* after giving effect of *reinsurance* will be evaluated by the *GSE*.

Any *risk sharing transactions* whether with a *mortgage enterprise* or an *affiliate* thereof

Comment [A15]: The Risk Based Required Asset test for the PMIERs applies a different framework than both statutory and GAAP accounting rules. Therefore, the evaluation for credit for reinsurance should be performed and evaluated independently under PMIERs than different frameworks including statutory and GAAP accounting. PMIERs reinsurance credit should require risk transfer under both statutory and GAAP accounting guidance which ensure that (1) the reinsurer assumes significant insurance risk under the reinsured portions of the underlying insurance contracts and (2) it is reasonably possible that the reinsurer may realize a significant loss from the transaction. Once risk transfer is adequately demonstrated by the ceding mortgage insurer, the amount of credit for reinsurance should be determined based specifically on the application of the PMIERs capital regime against the terms of the reinsurance contract. Statutory capital benefit for reinsurance will vary from PMIERs capital benefit given the difference in capital regimes. For example, under the PMIER capital grid a 95 LTV and 741-780 FICO loan requires 6% capital and the 6% capital requirement would receive dollar for dollar reinsurance credit for cessions of risk up to the first 6% of risk-in-force for the loan while receiving no credit above that point. For comparison, the statutory capital requirement of 25:1 risk to capital is not based on FICO or LTV category and would receive 1/25th of any cessions of risk theoretically up to the full amount of risk-in-force. For the same 6% risk cession which received 6% or dollar for dollar credit under PMIERs, statutory accounting rules would provide 0.24% credit (or 1/25th of the 6% risk cession). The PMIERs should explicitly recognize the different capital standards and requirements for reinsurance credit under statutory and GAAP accounting rules and should not require that reinsurance obtain the same amount of credit under those fundamentally different regimes to receive full credit under the PMIER requirements.

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***Reinsurance* and *Risk Sharing Transactions* (continued)**

that constitute or involve un-captive captives or performance notes, as defined by the Insurance Department of the *State* of New York[1], are expressly prohibited.

Non-affiliated* or *Non-exclusive Affiliated Reinsurance

Approved insurers, with the *GSE's* written approval, may enter into reinsurance arrangements with *non-affiliated* or *non-exclusive affiliated reinsurers*, as defined below. The *GSE* may limit the percentage of gross premium and risk that may be ceded to the *non-affiliated* or *non-exclusive affiliated reinsurer*.

The *GSE* will not approve any *reinsurance* or *risk sharing transaction* set up under the following conditions:

- With the purpose or effect of circumventing the terms and conditions of these *PMIERs*; or
- With a *mortgage enterprise* or an *affiliate* of a *mortgage enterprise.*

If approved, a final version of the *reinsurance* agreement, and all attachments and exhibits, must be provided to the *GSE* within 30 days after the closing date.

An *approved insurer* may be required to obtain an opinion from a *third-party risk analytics firm* that: (1) real risk transfer occurs for each agreement, and (2) ceded premium is commensurate with ceded risk. *Reinsurance* must provide sufficient capital relief for the *approved insurer* and provide economic benefit, as determined by the *GSE.*

Minimum counterparty financial requirements for a non-*affiliated* or *non-exclusive affiliated reinsurer* or risk-sharing partner include the following:

- A strongly capitalized entity, as determined by the *GSE*, that provides *reinsurance* to the ceding *approved insurer*; or
- A *reinsurer* that maintains an Insurer Financial Strength Rating of at least 'A-' from either S&P or Fitch, or 'A3' from Moody's, or 'A' from A.M. Best.

Exclusive Affiliated Reinsurance

Quota share reinsurance arrangements with *exclusive affiliated reinsurers* are permitted without the *GSE's* approval as long as gross risk or ceded premium does not exceed 25% of the risk or premium, respectively, unless the *reinsurance* is related to compliance with regulatory loan level coverage limits. *Excess of loss reinsurance* arrangements with *exclusive affiliated reinsurers* ~~are not permitted~~related to compliance with regulatory loan level coverage limits are permitted without the GSE's approval as long as the ceding company retains at least 25% of the entire indebtedness to the insured.

An *exclusive affiliated reinsurer* must be a strongly capitalized *affiliate*, as determined by the *GSE*, of a ceding *approved insurer* that provides *reinsurance* to the ceding *approved insurer.*

The financial impact on the *approved insurer* after giving effect of *reinsurance* will be evaluated by the *GSE.*

[1] New York State. State of New York Insurance Department. Mortgage Guaranty Insurance Transactions and Lenders. Circular Letter No. 2, February 1, 1999. New York, New York

Other Risk Sharing Transactions

An *approved insurer* must obtain written approval from the *GSE* prior to entering into any other *risk sharing transactions*. *Risk sharing transactions* that are eligible for consideration are those that:

- Have not been prohibited by a *state* that asserts extraterritoriality for insurance regulation (whether or not that state's extraterritorial authority would apply to the *risk sharing transaction* or the *approved insurer* in the absence of this requirement), and
- Do not violate (i) the *applicable law* established by any state asserting extraterritoriality for such *risk sharing transaction* (whether or not that state's extraterritorial authority would apply to the *risk sharing transaction* or the *approved insurer* in the absence of this requirement), and (ii) all other *applicable laws*.

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***Lender Captive Reinsurance* Contracts**

Approved insurers may not enter into any new *lender captive reinsurance* contracts nor cede any additional risk to existing *lender captive reinsurance* arrangements.

The *approved insurer* must obtain prior written approval from the *GSE* to:

- Allow the payment of dividends or distribute funds to the parent or *affiliates* in amounts greater than permitted by the *lender captive reinsurance* contract;
- Effect a *material* or economically adverse alteration or amendment to a *lender captive reinsurance* contract; or
- Terminate any *lender captive reinsurance* contract unless the *approved insurer* receives at least 80 percent of the value of assets in the captive trust.

The ceding *approved insurer* must monitor the investment of the captive trust assets, and when investments are determined to be noncompliant according to *applicable law* or transaction documents, direct that the trust assets be brought into compliance.

Notices/Reports/Monitoring

800
Statement of Purpose

An *approved insurer* must keep the *GSE* advised of all aspects of its ownership and operations that ~~might~~ would have ~~or reasonably could be expected to have~~ a ~~bearing~~ materiall~~y~~ adverse impact on (i) the ~~business, property, operations or~~ financial ~~and/or operational~~ condition of the *approved insurer* or (ii) the value of the *GSE's* credit enhancement.

801
Notices

An *approved insurer,* and any *exclusive affiliated reinsurer*, must notify the *GSE* *immediately* in writing of any of the events listed below; provided that the *approved insurer* or *exclusive affiliated insurer* has knowledge or reasonably should be expected to have knowledge of such event. The notice must describe the event with reasonable specificity, without reference to any other documents.

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1) Upon the occurrence of any event, action or circumstance that would require a notice on SEC Form 8K if the *approved insurer* is subject to such requirement.
2) Upon receipt of notice of ~~*material*~~ noncompliance with any *applicable law* if such noncompliance ~~could~~would have a material adverse impact on the ~~business, property, operations or financial condition of the~~ *approved insurer*.
3) Upon receipt of notice of investigation of, or *material* action from, any federal, state, local government agency, or any regulatory or enforcement body.
4) Upon discovery of any *material* failure to meet these *PMIERs*, the specific terms and conditions of approval, or any other requirement imposed by the *GSE*.
5) Upon receipt of notice that the *approved insurer* has or will be placed into *run-off*, conservatorship, receivership, liquidation or state of supervisory control by its *domestic state insurance regulator*. The *approved insurer* must provide the *GSE* the actual content or *material* substance of any corrective order or similar regulatory directive issued in connection with such action.
6) Upon any *material* change in its ownership, control or organization. Such change may include, but is not limited to, a merger, consolidation, sale or transfer of stock, name change or change in its *senior management* or the membership of its board of directors.
7) Upon any *material* adverse change in the financial condition or performance of an *approved insurer* or actions or events that threaten *material* adverse change.
8) Upon being placed on probation or having its activities restricted in any manner by any agency of the federal, state or local government or regulatory authority.
9) Upon becoming subject to any judgment, order, finding, or regulatory action that would adversely affect the *approved insurer*'s ability to meet or otherwise fulfill any requirement of the terms and conditions of these *PMIERs* or the conditions of the *GSE's* approval of the *approved insurer*, or that could adversely impact its claims paying ability or the ordinary conduct of its business.
10) Upon obtaining final internal approval of any change to any existing *capital support agreement(s)* and/or execution of a new *capital support agreement* for the benefit of, or provided by, the *approved insurer* that could have a *material* adverse impact on the value of the *mortgage guaranty insurance* provided to the *GSE* or the financial and/or operational condition of the *approved insurer*.
11) Upon (i) any filing for federal bankruptcy by, or (ii) issuance by a state or federal court, or other applicable entity with appropriate authority of, an order of

liquidation, rehabilitation, conservatorship, or receivership against any entity holding a controlling interest in the *approved insurer*.

801 Notices (continued)

12) Upon any *material* adverse change in the financial condition, rating, or performance of any provider of *reinsurance* (including *lender captive reinsurers*) for the benefit of the *approved insurer*, or actions or events that threaten such *material* adverse change.
13) Upon placement of its insurer Financial Strength Rating on ratings watch, or the upgrade, confirmation, affirmation, downgrade, withdrawal, or discontinuance of such rating by any *rating agency*.
14) Upon discovery of any existing activity that may have the potential for creating *material* non-insurance related contingent liabilities (e.g., contract underwriting).
15) Upon the resignation or termination of its certified public accountants.
16) Upon a *material* default on a policy or other contractual obligation to any insured or third-party beneficiary of such insurance (e.g., the *GSE*), which is not cured in accordance with the contract terms or, if such contract terms do not specify a time for such cure, within a reasonable time.
17) Upon a determination that any *risk sharing transaction,* or *mortgage guaranty insurance* of loans not acquired by the *GSE,* is likely to have a *material* adverse impact on the value of the insurance provided to the *GSE* or the financial and/or operational condition of the *approved insurer*.
18) Upon a determination that any change, event, or circumstance, whether by contract, law, or otherwise, has or will have a *material* adverse impact on the value of the *mortgage guaranty insurance* provided to the *GSE* or the financial and/or operational condition of the *approved insurer*.
19) With as much advance notice as possible, but no later than concurrently with the announcement of changes to an *approved insurer's* published eligibility or underwriting guidelines or published rates for any standard borrower or lender-paid *mortgage guaranty insurance* or servicing guidelines.
20) Upon discovery of any conflict between *applicable laws* and any provision of these *PMIERs* or the terms and conditions of approval.
21) Upon discovery of any loss event covered under either a fidelity bond or errors and omissions insurance policy that exceeds $~~100,000~~25,000,000 whether or not the approved insurer elects to file a claim under the applicable policy.
22) Upon receipt of a notice from the approved insurer's fidelity bond or errors and omissions insurance carrier regarding the intended cancellation, reduction, nonrenewal, or restrictive modification of such policies, the approved insurer must provide a copy of the notice to the GSE with an explanation of the actions being taken or intending to be taken to ensure it continues to satisfy the insurance requirements described in Section 312 of these PMIERs.

802 Required Reporting

Operational Performance Scorecard

Each quarter, an *approved insurer's* operational performance will be evaluated by the *GSE* using the *Operational Performance Scorecard* that will be adopted by each *GSE* and included as an exhibit to these PMIERs. The *Operational Performance Scorecard* ~~, which~~ will contain specific, clearly defined metrics chosen to capture operating performance

Comment [A16]: Based on past efforts to create and exchange detailed data, we anticipate and recommend strong collaboration between approved insurers and the GSEs to engage in an iterative process to facilitate the development of a final Operational Scorecard, revision process, data dictionary and reporting parameters well in advance of the anticipated June 15 effective date. With these baseline controls and our comments and recommendations to the Operational Scorecard Template, Genworth would support releasing the Scorecard following an initial one year non-public calibration period and establishment of a baseline for common understanding of the intent, definitions, expectations and reasonableness of the resulting process to produce the requested metrics.

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802 Required Reporting (continued)

results. The *GSE* will establish target expectations for those metrics to evaluate performance on an absolute and relative basis, and will provide such target expectations to each *approved insurer* no later than 180 days prior to the date such target expectations will go into effect. In the event the *GSEs* revise the *Operational Performance Scorecard,* the *GSEs* shall provide each *approved insurer* with at least 180 days advance notice of such revisions to ensure an opportunity to comment and sufficient time for each *approved insurer* to implement necessary changes.

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An *approved insurer* must implement operational procedures that provide for accurate and timely reporting of results and the data necessary to derive the scorecard metrics. To facilitate this reporting and analysis, the *approved insurer* must undertake the following:

- Within 30 calendar days after the end of each quarter, submit a data file containing the requested scorecard metrics as described in the *Operational Performance Scorecard* template (Exhibit B).
- Within 30 calendar days after the end of each month, file a report (Exhibit C) summarizing activity including, but not limited to, data on claims, rescissions, denial, appeals and rebuttals.

Comment [A17]: We anticipate significant work by the MIs and the GSEs to create the data files, including a data dictionary. Based on past efforts with the GSEs regarding submission of detailed data, this is likely to be an iterative and resource intensive process. We recommend beginning this process as soon as possible to ensure that all parties are ready to comply upon the effective date.

If the *Operational Performance Scorecard* results do not meet the thresholds established by the *GSE*, the *approved insurer* will be subject to remediation actions as provided in Section 901. The results of an *approved insurer's Operational Performance Scorecard* will fall into one of four categories shown below, with the degree of remediation correlating to the level of risk:

Comment [A18]: Please provide some explanation of how the scorecard will be used to determine into which category an approved insurer falls. Transparency regarding how the score will be calculated is very important.

- Acceptable Performance.
- Low Risk: Discuss issue with *approved insurer* and define targeted steps and timelines for meeting the applicable requirement.
- Medium Risk: Implement restrictions on business practices or charge financial penalties for failing to satisfy requirements or agreed-upon remediation actions.
- High Risk: Take actions to eliminate unacceptable levels of the *GSE's* exposure to the *approved insurer*.

~~More specifically, the remediation options that the *GSE* may consider include, but are not limited to, those options listed in Section 901.~~

Additional Quarterly Reports and Processes

An *approved insurer,* and any *exclusive affiliated reinsurer*, either individually or on a consolidated basis, must file [Form 443 (*Freddie Mac*)] [Form 853 (*Fannie Mae*)], with the *GSE* within 45 calendar days after the end of each quarter, except for the last quarter of each calendar year. The report for the last quarter of a calendar year must be filed with the *GSE* within 60 calendar days after the end of that calendar year.

Comment [A19]: We also recommend that the GSEs require each approved insurer, including new entrants, to report quarterly a new premium to new RIF ratio for flow business. This ratio would serve as a useful indicator that would supplement the asset test by tracking trends in pricing relative to risk that could signal possible shifts in overall risk. This ratio should be simple for each approved insurer to calculate and would be a simple tool for the GSEs to monitor each approved insurer on an individual basis and relative to its peers. Our suggestion is consistent with Glenworth's quarterly public disclosures filed with the SEC and we urge FHFA to consider requiring all approved insurers to make available the same detailed information regarding premiums relative to risk insured.

When submitting the Form [443][853], the *approved insurer* must also notify the *GSE* in the event that funds have been removed from the *contingency reserve* during the previous quarter, if such funds were removed prior to the 10-year hold period specified in the *Model Act*, Section 16(c) - Reserves.

Within 45 calendar days after the end of each quarter (except for the last quarter of each

802 Required Reporting (continued)

calendar year, during which the report must be filed with the *GSE* within 60 calendar days after the end of that calendar year), an *approved insurer* must provide the following:

1) Reporting:
   a) Quarterly statutory financial statements of the insurer and its subsidiaries.
   b) The quarterly portfolio and financial supplement set of spreadsheet tabs as attached in Exhibit D.
2) A consolidated report for all *lender captive reinsurance* agreements and individual reports for each of the *approved insurer's* top 10 *lender captive reinsurers* (measured by aggregate dollar amount of potential exposure reinsured with such *lender captive reinsurer*) and any *lender captive reinsurer* for *lender captive reinsurance* arrangements above 25% ceded risk and/or premium.
3) File a report on a consolidated basis for all *reinsurance* agreements with *reinsurers* that are not *lender captive reinsurers* and individually for each of the top 10 *reinsurers* that are not *lender captive reinsurers*. Data will be included in financial supplement as attached in Exhibit D.
4) Additional data files required by the *GSE* necessary to calculate *risk-based required assets* as defined in Exhibit A.

Annual Reports

Each *approved insurer*, and any *exclusive affiliated reinsurer*, is required to submit the following reports to the *GSE* by April 15 each year (unless such reports are available on or through links on the web site of the approved insurer or its parent company within such time period):

1) Annual consolidated GAAP financial statements for non-public entities.
2) An annual *convention statement* as filed with state insurance regulators and all correspondence relating thereto.
3) An annual certificate which states that the *approved insurer* has fully met these *PMIERs*. The form of such certificate shall be prescribed by the *GSE* and must be signed by a member of the *senior management* team of the *approved insurer*.
4) An audit report prepared by an independent certified public accountant or in lieu thereof a copy of Form 10K for the *approved insurer* or its parent company as filed with the Securities and Exchange Commission, attaching a schedule which will reconcile the audited consolidated financial statements included in the Form 10K with the statutory financial statements of the *approved insurer*, if such reconciling schedule exists (reconciling schedule must be provided as soon as available if not typically available by April 15).

   The *approved insurer's* statement of actuarial opinion on reserve adequacy.

803 Supplemental Information

At any time, the *GSE* reserves the right to request any additional reports and documents that may contain information reasonably related to ~~relating to~~ the *approved insurer's* having met (or its failure to meet) these *PMIERs* or the *approved insurer's* practices addressed in these *PMIERs*, or these *PMIERs* or practices of any *exclusive affiliated reinsurer* reasonably related to these *PMIERs*.

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Notices/Reports/Monitoring

Periodic Audit Reviews

At the *GSE's* discretion, the *GSE* may conduct on-site and remote reviews and audits of the business policies, procedures and practices of the *approved insurer* and any *exclusive affiliated reinsurer.* The purpose of the review is to evaluate the *approved insurer's* ongoing ability to meet these *PMIERs.* The *GSE* must be provided with access to documents and staff as necessary to complete the review.

Reviews may be conducted on-site or remotely, and may include any aspect of the *approved insurer's* business operations, including but not limited to: organization and business strategy, financial statements, accounting and tax practices, investment portfolio management, insured portfolio characteristics and performance, *reinsurance,* lender/servicer management, underwriting guidelines, pricing, application and commitment/certificate issuance process, loss mitigation, claims processing and rescissions, and information technology systems. The *GSE* shall provide the *approved insurer* with at least 60 days advance written notice of its intention to conduct an on-site or remote review or audit.

900
General Policy

The *GSE* may take action(s) if it believes an *approved insurer* has violated, is violating or is about to violate any of these *PMIERs in any material respect*, including any additional conditions of eligibility or continued eligibility set by the *GSE* applicable to the *approved insurer*, or if the *GSE* has significant concerns regarding a material adverse change in the *approved insurer*'s i) financial and/or operational condition, ii) ability to honor obligations to the *GSE* or iii) ability to write new business, or iv) ability to maintain satisfactory operational performance. Such actions must be approved in writing by a Senior Vice Presidentthe CEO of the *GSE* and a deputy the dDirector of FHFA. Such actions may include but are not limited to:

1) Communication of a warning to the *approved insurer* that expresses the *GSE's* concern and suggests possible remediation actions in accordance with Section 901 – Remediation Options and Section 902 – Notice of Intent to Suspend or Terminate.
2) Issuance of a written warning to an *approved insurer* that it has violated, is violating, or is about to violate any of the provisions of these *PMIERs,* and that unless corrective action is taken within a specified time period, *suspension* or *termination* may result. This warning may be given by the *GSE* as part of an audit report or as a result of any other review or investigation of the *approved insurer* by the *GSE*.
3) Imposition of additional terms and conditions of eligibility including the remediation options in Section 901 – Remediation Options.

The GSE should provide an approved insurer with a reasonable time in which to cure any alleged violation of these PMIERs before taking any adverse action against the approved insurer, including but not limited to those actions set forth in this Section, Section 901 and Section 902.

Comment [A20]: Remediation is an extremely serious event that will have significant implications for an approved insurer and the GSEs. We are concerned that "significant concerns" is too vague a standard. The pro-cyclical construct of the current proposal for the asset test would result in remediation being triggered when markets are already experiencing stress, thereby exacerbating any downturn. We note that the significant implications for non-compliance with these PMIERs is one reason Genworth is so highly committed to working with FHFA and the GSEs to make the revisions needed before the PMIERs are finalized. It is also why we think it is necessary that any decision related to remediation be approved in writing by the CEO of the GSE and the Director of FHFA.

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Remediation Options

If an *approved insurer* is deemed to not meet any of these *PMIERs*, it will be subject to remediation actions, subject to the prior written approval of the Chief Executive Officer of the *GSE* and the Director of the FHFA. -Additionally, the *GSE* may require the *approved insurer* to provide an action plan acceptable to the GSE to meet the requirements with specific completion timeframes. If an action plan is required, the *GSE* will provide guidance related to any information, analysis and/or other documentation needed to support the specific actions the *approved insurer* will include in the plan.

A number of remediation actions may be taken by the *GSE* or be required of the *approved insurer* including but not be limited to:

1) Engage in more frequent dialogue or visits.
2) Require the *approved insurer* to provide additional information and data.
3) Impose new business volume or risk limits for loans insured by the *approved insurer* and delivered to the GSE.
4) Limit the risk characteristics of loans to be acquired by the GSE and insured by the *approved insurer*.
5) Increase frequency of QC reviews.
6) Restrict *delegated underwriting*.

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901 Remediation Options (continued)

7) Increase the *minimum required assets.*
8) Further limit the types of assets that may be considered *Available Assets.*
9) Require the *approved insurer* to raise or infuse additional capital.
10) Obtain parental or other capital support.
11) Commute or restructure existing *risk-in-force, subject to any required regulatory approvals*.
12) Limit variances to the *approved insurers* underwriting guidelines.
13) Limit or deny acceptability of an *affiliate's* product or services in connection with the *GSE's* business.
14) Restrict or deny participation in new products, initiatives or programs offered by the *GSE.*
15) Notify *approved insurer's* regulator and *rating agencies* of remedial actions.
16) Differentially price insured loans acquired by the *GSE,* based upon the *approved insurer, subject to any required regulatory approvals*.
17) Decline insurance renewal or exercise other policy cancellation provisions of loans owned or guaranteed by the GSE, or so instruct servicers of the GSE's loans, and then transfer insured business to another *approved insurer, subject to any required regulatory approvals*.
18) Impose compensatory fees for losses suffered on the GSE's loans as a result of the *approved insurer's* failure to meet the PMIERs.
19) Issue a demand for any other specific corrective action.
20) Suspend approval status.
21) Terminate approval status.

Comment [A21]: An insurer typically is prohibited by state law from certain restructurings of risk-in-force, giving GSE loans preferential pricing or the transfer of insured loan certificates to a new insurer without applicable state insurance regulatory approval.

902 Notice of Intent to Suspend or Terminate

The *GSE* will provide lenders appropriate notices consistent with the foregoing actions. The *GSE* may arrange for transfer of the existing *mortgage guaranty insurance RIF* with respect to insured loans purchased or guaranteed by an enterprise to another *approved insurer* or, if such coverage is not available from one or more *approved insurer*s, make alternative arrangements consistent with the terms of the *GSE's* charter. The *GSE* shall provide the MI with at least 90 days prior written notice of any decision to arrange for transfer of such existing *mortgage guaranty insurance* RIF. Any such decision shall be subject to the appeal provisions set for in Section 1000 of these *PMIERs.*

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If an *approved insurer* wishes to voluntarily discontinue meeting the terms and conditions of approval, the *approved insurer* must inform the *GSE* 30 calendar days in advance (or a shorter period if 30 calendar days prior notice is not possible), in writing. Upon receipt of written notification, the *GSE* will *suspend* or *terminate* the *approved insurer*.

The *GSE* will provide the *approved insurer* with not less than 15 calendar days prior written notice of intent to *terminate* or *suspend* unless the *GSE* determines, at its sole discretion, that a shorter or no notice period is necessary or advisable to protect its interests.

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Notices/Reports/Monitoring

Certain violations of these *PMIERs* are viewed with particular seriousness by the *GSE*, ~~including but not~~ limited to, violations involving fraud or criminal conduct that pertain~~ing~~ to an *approved insurer's* safety and soundness, financial and/or operational condition or its claims paying ability. In such cases, the *GSE* may act without prior written notice to disqualify or suspend the *approved insurer*, subject to the written approval of the Chief Executive Officer of the GSE and the Director of the FHFA. If prior written notice is not provided, *suspension* or *termination* will become effective upon oral notice from the *GSE* to the *approved insurer.* Written confirmation of that oral notice will follow. The *GSE's* decision to *terminate* or *suspend* an *approved insurer* will be made pursuant to its applicable process and appropriate approvals, including the appeal process set forth in Section 1000 of these PMIERs.

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903 Consequences of Suspension	During a period of *suspension*, the *GSE* will not purchase mortgages insured by a suspended mortgage insurer that had been formerly approved. However, the *GSE* may permit renewals of existing *mortgage guaranty insurance* coverage issued by the suspended mortgage insurer for mortgages serviced for the *GSE* and provide lenders appropriate notices consistent with the foregoing actions.
904 Consequences of Termination	The *GSE* will not purchase mortgages insured by a terminated *approved insurer*, and may not permit renewals of existing *mortgage guaranty insurance* for mortgages serviced for the *GSE*.

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Request for Appeal

An *approved insurer* may write to the *GSE* and FHFA to appeal a decision regarding remediation pursuant to Section 901, or a determination to disqualify, suspend or transfer existing *mortgage guaranty insurance RIF* pursuant to Section 902. The appeal must be received no later than 15 calendar days after the *approved insurer* receives written notice or written confirmation of the action from the GSE. If an appeal is not submitted in writing within such 15 day period, the *approved insurer* shall be deemed to have forfeited its opportunity to appeal. A final determination shall be made in writing and signed by the Chief Executive Officer of the *GSE* and the Director of the FHFA.

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Exhibit A

Total Risk-Based Required Asset Amount

The total *risk-based required asset amount* for an *approved insurer* is a function of its direct risk-in-force (*direct RIF*), and the risk profile of the loans it has insured under all its primary and pool policies, including the *master policies*. The *risk-based required asset amount* is computed as described in this exhibit using tables of factors with several risk dimensions.

The *risk-based required asset amount* for primary *mortgage guaranty insurance* covering performing loans is also subject to a floor equal to 5.6% of *RIF* to ensure that such exposure is supported by a minimum amount of assets, irrespective of the risk profile of the covered loans. The *risk-based required asset amount* for pool insurance considers both the grid factors and the *net remaining stop loss* for the pool policy.

The *direct RIF* used to calculate the *risk-based required asset amount* may be adjusted to reflect risk ceded to other parties.

Adjustments to RIF for Risk Ceded to Other Parties

Starting with the amount of the *approved insurer's direct RIF*, adjustments will be made, as applicable, to deduct certain risk ceded to other parties to obtain *adjusted RIF,* which is used to compute the *risk-based required asset amount* described in the sections that follow.

The *approved insurer* must seek guidance from the *GSE* to determine the amount of ceded risk that may be deducted in calculating *adjusted RIF*.

In general, the following are the adjustments to *direct RIF* that will be considered by the GSE:

- Risk transferred to *non-exclusive affiliated reinsurers* or *non-affiliated reinsurers* on a *quota share* basis may be deducted, based upon the projected amount of *direct RIF* ceded under a stress economic scenario.
- In making adjustments for risk ceded to *non-exclusive affiliated reinsurers* or *non-affiliated reinsurers* on an *excess of loss* or other basis not consistent with a *quota share* arrangement, the *GSE* will deduct only the amount of *RIF* ceded below a loss threshold equal to the *risk-based required asset* amount that would otherwise apply to the *direct RIF*. That is, for the ceded *RIF* to be deducted, the attachment point, expressed in dollars, for an *excess of loss* arrangement must be below what the *risk-based required asset* amount would be if applied to the *direct RIF*, i.e., if the reinsurance arrangement were not in place. Additionally, no *RIF* ceded above that same *risk-based required asset* amount will be deducted.
- All *risk sharing transactions* must meet the requirements described in Section 708.

Note that risk ceded to *exclusive affiliated reinsurers* or *captive reinsurers* will not be deducted in calculating *adjusted RIF*.

***Risk-Based Required Asset* Factors**

The *risk-based required asset amount* for loans insured with primary *mortgage guaranty insurance* or pool mortgage insurance are determined by using a set of *risk-based required asset* factors that are applied to the *adjusted RIF* as determined above. These *risk-based required asset* factors are segmented according to the following risk characteristics:

- The original LTV ratio of the loan;
- The original credit score of the borrower(s);

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- The vintage classification, based upon the note date of the insured loan:
  - Pre-2005,
  - 2005-2008, and
  - Post 2008
- Whether or not the loan has been refinanced through *HARP*; and
- The loan payment and/or policy claim status.

Tables 1 – 5 below are the *risk-based required asset* factor grids. These may be updated periodically to reflect changes in the risk characteristics of insured loans and changes in the macroeconomic environment.

Table 1:
Loan Vintage: Pre-2005
Loan Payment Status: Performing (Current or not more than one missed monthly payment)
Loan Purpose: non *HARP*

	Original Credit Score Classification				
Original LTV Classification	**<= 620**	**621 - 680**	**681 - 740**	**741 - 780**	**781 - 850**
LTV <= 85	1.3%	1.1%	1.0%	1.0%	1.0%
85 < LTV <= 90	4.6%	3.3%	1.8%	1.0%	1.0%
90 < LTV <= 95	6.3%	4.2%	2.3%	1.2%	1.0%
LTV > 95	11.2%	7.6%	4.2%	2.2%	1.2%

Table 2:
Loan Vintage: 2005 - 2008
Loan Payment Status: Performing (Current or not more than one missed monthly payment)
Loan Purpose: non *HARP*

	Original Credit Score Classification				
Original LTV Classification	**<= 620**	**621 - 680**	**681 - 740**	**741 - 780**	**781 - 850**
LTV <= 85	15.9%	11.6%	7.7%	4.3%	2.4%
85 < LTV <= 90	25.6%	19.2%	12.9%	7.6%	4.7%
90 < LTV <= 95	30.7%	23.4%	16.6%	10.1%	6.2%
LTV > 95	39.5%	31.7%	21.8%	13.9%	8.4%

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Table 3:
Loan Vintage: Post 2008
Loan Payment Status: Performing (Current or not more than one missed monthly payment)
Loan Purpose: non *HARP*

Original LTV Classification	Original Credit Score Classification <= 620	621 - 680	681 - 740	741 - 780	781 - 850
LTV <= 85	10.3%	7.6%	4.5%	2.5%	1.4%
85 < LTV <= 90	17.6%	12.7%	7.5%	4.3%	2.5%
90 < LTV <= 95	23.8%	16.9%	10.2%	6.0%	3.6%
95 < LTV <= 100	27.9%	21.4%	13.9%	7.8%	4.7%
100 < LTV <= 105	31.1%	23.2%	16.5%	9.8%	5.7%
LTV > 105	38.7%	28.2%	20.6%	13.0%	8.2%

Table 3-1 Seasoning Factors
Loan Vintage: Post 2008
Loan Payment Status: Performing Current or not more than one missed monthly payment)
Loan Purpose: non *HARP*

Apply the following seasoning factors to the R*isk-Based Required Asset* factors found in Table 3..
.

Loan Age (Months)	Recommended Factor
>60	0.72
49 - 60	0.77
37 - 48	0.81
25 - 36	0.88
13 - 24	0.94
0 - 12	1.00

Table 3A:
Loan Vintage: Post 2008
Loan Payment Status: Performing (Current or not more than one missed monthly payment)
Loan Purpose: all
Loan Type: not meeting any of the following criteria at the time of origination:

- **Eligible for sale to Fannie Mae, Freddie Mac, or any of the Federal Home Loan Banks;**
- **Meets the requirements of either GSE Selling Guide, except those related to loan amount**
- **Originated under a state housing finance agency program, or**
- **Meets the requirements of a qualified mortgage under 12 C.F.R. § 1026.43(e) or (f)**

Risk Feature *	Multiplier
Not Underwritten with Full Documentation	3.00
Not Owner-occupied at Origination	3.00

Comment [A22]: PMIERS aggregate all loans originated post-2008 into one table and assign a capital factor by FICO and LTV category. The categorization does not recognize the positive impact that seasoning has in reducing the probability of default for older vintages or the benefits of building an insurance portfolio diversified through time. The inclusion of a seasoning factor by number of payments made that adjusts the current table for post-2008 vintages properly accounts for temporal diversification, brings greater clarity to the treatment of future books of business, and enables MI companies to better plan for their capital needs across multiple future scenarios.

Comment [A23]: Seasoning benefits can be attributed to both reallocations of future losses from new loans to delinquent loans, to home price appreciation, and amortization. A precedent for recognition of seasoning has been set by international regulators and is supported by industry data studies.

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Underwritten with a Monthly Debt-to-Income Ratio > 43%**	2.00
Mortgage Payment is not Fully Amortizing	1.50

* If the *approved insurer* does not have, or does not provide to the GSE, data to determine the presence of one of the listed risk features, then for purposes of this section, the risk will be assumed to exist, and the associated multiplier will apply.

** Monthly Debt-to-Income Ratio determined in accordance with the standards specified in 12 C.F.R. § 1026.43, including appendix Q.

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Table 4:
Loan Vintage: as permitted by *HARP* guidelines
Loan Payment Status: Performing (Current or not more than one missed monthly payment)
Loan Purpose: *HARP*

	HARP* Credit Score Classification				
HARP* LTV Classification	<= 620	621 - 680	681 - 740	741 - 780	781 - 850
LTV <= 85	4.3%	3.0%	1.2%	1.0%	1.0%
85 < LTV <= 90	7.3%	4.3%	1.6%	1.0%	1.0%
90 < LTV <= 95	9.9%	5.5%	2.3%	1.0%	1.0%
95 < LTV <= 100	12.9%	9.0%	4.3%	1.8%	1.0%
100 < LTV <= 105	14.4%	9.7%	5.4%	2.5%	1.3%
LTV > 105	22.3%	15.0%	9.7%	5.5%	3.3%

*As of the HARP refinance date.

Table 5: Non-performing Insured Loans

~~2 – 3 Missed monthly payments, no claim filed~~	~~55.0%~~
~~4 – 5 Missed monthly payments, no claim filed~~	~~69.0%~~
~~6 – 11 Missed monthly payments, no claim filed~~	~~78.0%~~
~~>= 12 Missed monthly payments, no claim filed~~	~~85.0%~~
~~Pending Claims~~	~~106.0%~~

~~**Proposed Table 5: Non-performing Insured Loans**~~

Comment [A24]: We do not feel that Table 5 sufficiently segments the non-performing loan population based on the age of delinquency or whether a loan has a prior history of delinquency. Please see our answer to Question 19 for additional information.

Comment [A25]: Our proposed changes are set forth in the tables below, which were developed based on observations of the 2008 delinquent inventory. The table sets out factors for non-performing loans using the buckets for delinquency age included in a previous GSE Information Request. While we do see higher factors for the oldest delinquencies due to higher severity, combining all delinquencies greater than 180 days is much simpler, and we don't see enough differentiation to warrant the added complexity. The differences in factors for early stage delinquencies are significant and do warrant differentiation

Delinquency Status	First Time Delinquent	Repeat Delinquent
2 – 3 Missed monthly payments, No Claim Filed	69%	44%
4 – 5 Missed monthly payments, No Claim Filed	83%	59%
6 - 11 Missed monthly payments, No Claim Filed	90%	70%
>=12 Missed monthly payments, No Claim Filed	98%	77%
Pending Claims	106%	106%

I. Calculating the *Risk-Based Required Asset Amount* for *Performing Primary Mortgage Guaranty Insurance:*

For purposes of this calculation, the term "performing" is defined as those loans that are current or not more than one missed monthly payment. The *risk-based required asset amount* for *performing primary mortgage guaranty insurance* is the greater of a) the sum of the products of the *risk-based required asset* factors in the tables above multiplied by the *performing primary adjusted RIF* for each cell, or b) the product of 5.6% multiplied by the aggregate *performing primary adjusted RIF*.

Comment [A26]: Based on our understanding of the modeling methods used by the GSEs, it appears that the approach to calculate the risk-based required asset factors in Exhibit A of the draft PMIERs may result in double counting loss experience through the application of Tables 1-4 (performing loans) together with the application of Table 5 (non-performing loans). The result would be to require a risk-based required asset amount that exceeds ultimate claims expectations under stress.
Please see our response to Question ___ for additional information.

Calculation Steps:

i. For each insured loan, establish the *risk-based required asset* factor:

1. Find the applicable factor found in Tables 1, 2, 3, or 4 above, based upon the Original Credit Score, Original LTV, Vintage, and Loan Purpose of the insured loan. For loans refinanced through the HARP program, use the LTV ratio and credit scores at the time of the refinance.

2. For loans that a) meet the criteria specified in the header for Table 3A above, and b) have one or more of the risk features specified in Table 3A: multiply the factor found in Step (I.i.1) by each of the applicable multipliers specified in Table 3A.

   For loans that do not either a) meet the criteria specified in the Table 3A header, or b) have one or more of the risk features specified in Table 3A: multiply by 1.0

3. The *risk-based required asset* factor is the lesser of the product derived in Step (I.i.2) or 100%.

ii. Multiply the *performing primary adjusted RIF* for each insured loan by the applicable *risk-based required asset* factor found in Step (I.i.3).

iii. Sum the products derived in Step (I.ii).

iv. Divide the sum from Step (I.iii) by the aggregate *performing primary adjusted RIF* used in Step (I.ii). If the result is greater than 5.6%, then the *risk-based required asset amount* for *performing primary mortgage guaranty insurance* is the sum calculated in Step (I.iii); otherwise, the *risk-based required asset amount* for *performing primary mortgage guaranty insurance* is the aggregate

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performing primary adjusted RIF used in Step (I.ii) multiplied by 5.6%.

v. *Example 1:*

1. For Step (I.i), an MI company has:
    a. $80,000,000 of *performing primary adjusted RIF* characterized as non-HARP, 2005-2008 vintage, original credit score 741-780, and original LTV of 85 < LTV <= 90, and
    b. $40,000,000 of *performing primary adjusted RIF* characterized as *HARP*, original credit score of 681-740 and original LTV of LTV > 105.
    c. Assume no insured loans meet the criteria specified in the Table 3A header.

2. Step (I.ii), multiply the *performing primary adjusted RIF* amounts above by the *risk-based required asset* factors in the corresponding grid cells. For Step (I.iii), sum the products:
    ($80,000,000 x 7.6% x 1.0) + ($40,000,000 x 9.7% x 1.0) = $9,960,000

3. Step (I.iv):
    a. $9,960,000 / ($80,000,000 + $40,000,000) = 8.3%
    b. 8.3% is greater than 5.6%; therefore, the *risk-based required asset amount* for *performing primary mortgage guaranty insurance* is $9,960,000

vi. *Example 2*:

1. For Step (I.i), an MI company has:
    a. $50,000,000 of *performing primary adjusted RIF* categorized as non-*HARP*, Post 2008 vintage, original credit score of 741-780 and original LTV of 85 < LTV <= 90
    b. Assume no insured loans meet the criteria specified in the Table 3A header.

2. Step (I.ii) Calculation:
    ($50,000,000 x 4.3% x 1.0) = $2,150,000

3. Step (I.iv) Calculation:
    a. $2,150,000 / $50,000,000 = 4.3%
    b. 4.3% is less than 5.6%, therefore the *risk-based required asset amount* for *performing primary mortgage guaranty insurance* is ($50,000,000 x 5.6%) = $2,800,000

vii. *Example 3*:

1. For Step (I.i), an MI company has:
    a. $90,000,000 of *performing primary adjusted RIF* characterized as Post 2008 vintage, original credit score 741-780, and original LTV of 90 < LTV <= 95. Each of these loans has both of the following risk characteristics: a) property is not owner occupied at origination, and b) Debt to Income Ratio > 43%.
    b. $75,000,000 of *performing primary adjusted RIF* characterized as GSE-eligible HARP, original credit score of 681-740 and

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original LTV of LTV > 105. Assume no insured loans meet the criteria specified in the Table 3A header.

2. Step (I.ii), multiply the performing primary adjusted RIF amounts above by the risk-based required asset factors in the corresponding grid cells. For Step (I.iii), sum the products:

   ($90,000,000 x 6.0% x 3.0 x 2.0) + ($75,000,000 x 9.7% x 1.0) = $39,675,000

3. Step (I.iv):
   a. $39,675,000 / ($90,000,000 + $75,000,000) = 24.0%
   b. 24.0% is greater than 5.6%; therefore, the risk-based required asset amount for performing primary mortgage guaranty insurance is $39,675,000

II. Calculating the *Risk-Based Required Asset Amount* for *Non-performing Primary Mortgage Guaranty Insurance:*

For purposes of this calculation, the term "non-performing" is defined as those loans that have missed two or more monthly payments. The *risk-based required asset amount* for *non-performing primary mortgage guaranty insurance* is calculated separately and the applicable *risk-based required asset* factors are determined based on the default status of the loan: 1) 2 – 3 missed monthly payments, 2) 4 – 5 missed monthly payments, 3) 6 – 11 missed monthly payments, 4) >= 12 missed monthly payments and 5) pending claim as defined in Table 5. The *risk-based required asset* factors for *non-performing primary mortgage guaranty insurance* are not segmented by vintage, LTV and other risk dimensions.

Calculation Steps:

i. Apportion the *non-performing primary adjusted RIF* across the default status categories in Table 5.

ii. Multiply the values calculated in Step (II.i) with the values in the corresponding cells in Table 5. Aggregate the results.

iii. *Example 4:*

1. For Step (II.i), an MI company has:
   a. $20,000,000 of *non-performing primary adjusted RIF* classified as 6 – 11 missed monthly payments.
   b. $4,000,000 of *non-performing primary adjusted RIF* classified as Pending Claims

2. Step (II. ii) Calculation:
   ($20,000,000 x 78%) + ($4,000,000 x 106%) = $20,200,000; this is the *risk-based required asset amount* for *non-performing primary mortgage guaranty insurance*.

III. Calculating the *Risk-Based Required Asset Amount* for

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Performing and Non-Performing Loans Covered by Pool Mortgage Insurance Policies

The *risk-based required asset amount* for pool mortgage insurance policies (the "pool policy") is calculated for each pool, and then aggregated across all pool mortgage insurance policies as follows:

Calculation Steps:

i. Determine the performing *loan-level pool insurance RIF* covered by the pool policy. Pool contracts may vary but typically loan level pool insurance RIF can be calculated by multiplying the current principal balance by the lesser of original coverage amount or 50 percent ~~by multiplying the initial insured principal balance for each performing loan by the applicable loan level coverage percentage defined by the pool policy. If there is no loan level coverage percentage defined in the pool policy, multiply the initial insured principal balance by 100%.~~

ii. Determine the non-performing *loan-level pool insurance RIF* covered by the pool policy. . Pool contracts may vary but typically loan level pool insurance RIF can be calculated by multiplying the current principal balance by the lesser of original coverage amount or 50 percent ~~by multiplying the initial insured principal balance for each non-performing loan by the applicable loan level coverage percentage defined by the pool policy. If there is no loan level coverage percentage defined in the pool policy, multiply the initial insured principal balance by 100%.~~

iii. For each pool policy:

1. Calculate the performing *risk-based required asset amount*:

a. For each insured loan, establish the *risk-based required asset* factor:

i. Find the applicable factor found in Tables 1, 2, 3, or 4 above, based upon the Original Credit Score, Original LTV, Vintage, and Loan Purpose of the insured loan. For loans refinanced through the HARP program, use the LTV ratio and credit scores at the time of the refinance.

ii. For loans that a) meet the criteria specified in the header for Table 3A, and b) have one or more of the risk features specified in Table 3A: multiply the factor found in Step (III.iii.1.a.i) above by each of the applicable multipliers specified in Table 3A.

For loans that do not either a) meet the criteria specified in the Table 3A header, or b) have one or more of the risk features specified in Table 3A: multiply by 1.0

iii. The *risk-based required asset* factor is the lesser of the product derived in Step (III.iii.1.a.ii) or 100%.

b. Multiply the performing primary adjusted RIF for each insured loan by the applicable *risk-based required asset* factor found in Step (III.iii.1.a.iii).

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c. Sum the products derived in Step (III.iii.1.b).

2. Calculate the non-performing *risk-based required asset amount*:

   a. Apportion the non-performing *loan-level pool insurance RIF* across the cells of Table 5.

   b. Multiply the apportioned amount of non-performing *loan-level pool insurance RIF* in each cell of Table 5, as defined in Step (III.ii) by the applicable *risk-based required asset* factor in the corresponding cell

   c. Sum the results for all the cells.

3. Sum the amounts in Step (III.iii.1.c) and Step (III.iii.2.c)) and subtract any remaining pool level deductible.

4. The *risk-based required asset amount* for each pool policy is the lesser of the amount calculated in Step (III.iii.3) or the *net remaining stop loss* for the pool policy.

Comment [A27]: This implies that when a new pool contract is entered to, the organization will have to be capitalize the contract at the stop loss level. In other words, on day zero, the contract will be capitalized at 100%

iv. Aggregate the *risk-based required asset amounts* calculated for each pool policy in Step (III.iii.4) across all pool policies to derive the total *risk-based required asset amount* for *pool mortgage insurance policies*.

v. *Example 5:*

1. For Step (III.i), for a single pool policy, an MI company has:
   a. $100,000,000 of performing *loan-level pool insurance RIF* characterized as 2005-2008 vintage, original credit score 741-780, and original LTV of 85 < LTV <= 90, and
   b. $60,000,000 of performing *loan-level pool insurance RIF* characterized as 2005-2008, original credit score of 681-740 and original LTV of 90 < LTV <= 95.
   c. Assume no performing insured loans meet the criteria specified in the Table 3A header.
   d. $5,000,000 of non-performing *loan-level pool insurance RIF* for loans that have 2 – 3 missed monthly payments, and $3,000,000,~~000~~ for loans having more than 12 missed monthly payments, and $1,500,000 for pending claims.
   e. A *net remaining stop loss* for the pool policy of $24,000,000 with a remaining deductible of $5,000,000 with a remaining deductible of $5,000,000.

2. For Steps (III.iii.1) through (III.iii.3), multiply the performing *loan-level pool insurance RIF* and the non-performing *loan-level pool insurance RIF* by the applicable *risk-based required asset* factor (or factors, for those loans meeting the criteria in the Table 3A header) found in Tables 1- 5, and sum the results:

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($100,000,000 x 7.6% x 1.0) + ($60,000,000 x 16.6% x 1.0)
+ ($5,000,000 x 55%) + ($3,000,000 x 85%) + ($1,500,000 x 105%)
= $24,435,000

3. For Step (III.iii.4), determine the *risk-based required asset amount* for the pool policy by the following:
   a) Subtract any remaining deductible:
      $24,435,000 - $5,000,000 = $19,435,000.
   ~~a)~~b)
   ~~b)~~c) The *risk-based required asset amount* for the pool policy is the lesser of a) $~~24~~19,435,000 or b) $24,000,000.
   ~~c)~~d) Therefore, the *risk-based required asset amount* for this pool policy is ~~24,000,000~~19,435,000.

4. Aggregate the *risk-based required asset amounts* calculated for each pool policy to derive the total *risk-based required asset amount* for *pool mortgage insurance policies.*

IV. Total *Risk-Based Required Asset Amount* Calculation

The *total risk-based required asset amount* is the sum of the *risk-based required asset amounts* for the following:

a) *Performing primary mortgage guaranty insurance*,
b) *Non-performing primary mortgage guaranty insurance*, and
c) *Pool mortgage insurance policies*.

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Glossary

Adjusted RIF

Direct RIF after adjusting for risk ceded to other parties as defined in Exhibit A.

Affiliate or Affiliated

A relationship between two entities, the first of which, referred to in this section as "Company A," is a person (including any natural person or corporation, business trust, general or limited partnership, limited liability company, limited liability partnership, or other similar organization or legal entity), and the second of which, referred to in this section as "Company B," is a corporation, business trust, general or limited partnership, limited liability company, limited liability partnership, or other similar organization or legal entity:

1) Where Company A directly or indirectly owns or controls 10% or more of the voting shares or voting rights of Company B, through stock ownership or in any other manner, or

2) Where Company A is a *mortgage enterprise* and directly or indirectly owns or controls~~, either jointly or severally with other *mortgage enterprises*,~~ 10% or more of the voting shares or voting rights of Company B, through stock ownership or in any other manner, or

3) Where Company A controls in any manner the election of a majority of the directors or trustees or members of the governing body of Company B, or

4) Where Company A is a *mortgage enterprise* ~~and, either jointly or severally with other *mortgage enterprises*,~~ controls in any manner the election of a majority of the directors or trustees or members of the governing body of Company B, or

5) Where either Company A or Company B has a majority of directors or trustees or members of the governing body who are also directors or trustees or members of the other entity's governing body, or

6) Where Company A has the same ultimate parent company as Company B.

Comment [A28]: When combined with the definition of "mortgage enterprise", the breadth of the definition of "affiliate" or "affiliated" could produce unintended restrictive consequences for an approved insurer were it to seek reinsurance capacity pursuant to Section 708 in order to satisfy financial requirements under these PMIERs. Applying the phrase "either jointly or severally with other mortgage enterprises", which appears in clauses (1) and (4) of the definition of "affiliate" or "affiliated", would pose an unduly onerous burden on an approved insurer and would not be feasible for due diligence and compliance certification purposes with respect to ownership levels in determining affiliated or non-affiliated status during the life of a reinsurance arrangement.

Agreed Upon Procedures Report

Report provided from *approved insurer's* external auditors indicating that testing has been performed on *approved insurers* policies and procedures for certification that *approved insurer* meets Section 103 Ownership/Corporate Governance of Approved Insurer.

Applicable Law

Any and all federal laws and regulations that govern or apply to an *approved insurer* and the conduct of its business operations, including any and all applicable laws and regulations of its state of domicile, each state in which it does business, and each state which asserts extraterritorial jurisdiction over the business operations of the approved insurer, as all such and other applicable laws may be amended and supplemented from time to time. By way of illustration and not limitation, applicable law includes such laws as may govern or apply to an *approved insurer* that pertain to fair housing, fair lending, equal credit opportunity, truth in lending, wrongful discrimination, appraisals, real estate settlement procedures,

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Term	Definition
Applicable Law (continued)	borrower privacy, data security, escrow account administration, mortgage insurance cancellation, debt collection, credit reporting, electronic signatures or transactions, predatory lending, terrorist activity, the ability to repay, or the enforcement of any of the terms of a mortgage loan. The term also includes any other applicable laws or regulations, compliance with which is required under these *PMIERs*.
Approved Insurer	A *mortgage guaranty insurance* company that has been approved by the *GSE* as qualified to guarantee or insure mortgages purchased by the *GSE*.
Automated Underwriting System or AUS	*Fannie Mae*'s Desktop Underwriter, *Freddie Mac*'s Loan Prospector or other automated mortgage credit risk underwriting system not owned or developed by an *insured*.
Available Assets	*Available assets* are defined in Section 704.
Capital Support Agreement	Any agreement that supports the *approved insurer*'s capital position, including but not limited to a guarantee by a parent or third-party, or net worth maintenance agreement.
Ceding Commission	A commission paid to a ceding insurer by a *reinsurer* to reimburse the ceding insurer for policy acquisition and administrative costs.
Claim Perfection Date	The date all information and documents required by the *approved insurer* to file a claim under the terms of its applicable *master policy* have been received by the *approved insurer*.
Contingency Reserve	A reserve for unexpected claim or loss contingencies that are in excess of required statutory case and incurred but not reported loss reserves for a mortgage guaranty insurer generally equal to 50 percent of premiums earned. Such reserve must be maintained for a period of 10 years, unless permitted to be removed earlier as a result of losses exceeding a defined threshold. (See *Model Act*, Section 16 (c), Reserves)
Convention Statement	The NAIC's statutory financial reporting standard that insurance company's file on a quarterly and annual basis with state insurance regulators.
Delegated Underwriter	*Mortgage enterprise* designated by the *approved insurer* to perform *Delegated underwriting*.
Delegated Underwriting	Delegation of the insurance underwriting decision by the *approved insurer* to a *mortgage enterprise*, on loans originated by that lender.

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Direct RIF	The dollar amount of *mortgage guaranty insurance* coverage currently in-force the *approved insurer* has underwritten and is named as the obligated insurer or *reinsurer*, prior to any ceding or sharing of risk with any *reinsurer*.
Domestic State Insurance Regulator	The Department of Insurance or Insurance Commissioner for the state in which the *approved insurer* is domiciled.
Excess of Loss	A *reinsurance* arrangement whereby the *approved insurer* retains risk for a pool of loans up to a specified aggregate limit (expressed as a percentage of the pool balance), and the *reinsurer* assumes risk for the insured pool of loans once aggregate losses exceed the limit. Under an *excess of loss* arrangement, the aggregate pool risk for the qualified *reinsurer* may also be limited once losses reach a specified level, after which risk for the pool reverts back to the *approved insurer.*
Exclusive Affiliated Reinsurer	A *reinsurance* entity *affiliated* with an *approved insurer* that provides *reinsurance* exclusively for the benefit of the *approved insurer*. A special purpose vehicle created pursuant to a transaction that provides reinsurance exclusively for the benefit of the approved insurer shall not be deemed to be an exclusive affiliated reinsurer.
Fannie Mae	The Federal National Mortgage Association
Flagship	The insurer in any family of insurance companies that is the primary writer of *mortgage guaranty insurance* on mortgages securing one- to four-unit residential properties in the United States.
Freddie Mac	The Federal Home Loan Mortgage Corporation.
"GSE"	One of the government sponsored enterprises: Fannie Mae or Freddie Mac.
Home Affordable Refinance Program (HARP)	HARP is a refinancing program offered by Fannie Mae and Freddie Mac that provides a mortgage refinance option designed to help borrowers who may be ineligible for traditional refinancing because they have little or no equity.
Immediate or Immediately	Within ~~two business days~~~~the greater of (a)~~ 5 business days~~ and (b) the date upon which a filing with the Securities and Exchange Commission on Form 8-K would be required to be filed~~.

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Glossary

Insured — The policyholder or the person/entity so defined by the applicable *master policy.*

Lender Captive Reinsurance — *Reinsurance* that is issued by an *affiliate* of a *mortgage enterprise* that covers mortgages insured by the *approved insurer*.

Lender Captive Reinsurer — An *affiliate* of a *mortgage enterprise* that reinsures mortgages insured by an *approved insurer* that are originated, purchased, sold or serviced by a *mortgage enterprise*.

Performing Loan-Level Pool Insurance RIF — For each loan covered by the *approved insurer* under a pool insurance policy that are, as of the reporting date, current or not having missed more than one monthly payment: the product of a) the initial insured principal balance and b) by the applicable loan-level coverage percentage defined by the pool policy. If there is no loan-level coverage percentage defined in the pool policy, multiply the initial insured principal balance by 100%. See Exhibit A.

Master Policy — The form of *mortgage guaranty insurance* policy and related endorsements that have been approved by the *GSE* and issued by the *approved insurer* to its ~~customers~~insureds.

Material — Any change, event, or information where there is a substantial likelihood that such change, event or information either individually or together with other changes, events, or information is relevant to the *GSE*, including without limitation:

- the *GSE's* determination of the financial and/or operational condition or claims-paying ability of the *approved insurer*;
- the value of the insurance provided to the *GSE* by the *approved insurer*;
- the continued ability of the *approved insurer* to write new insurance in jurisdictions where it is licensed to do so; or
- where in some other manner negatively impacts the *GSE*.

The SEC's regulations that govern securities registration and disclosure can be used as a guideline to evaluate whether such change, event, or information may be relevant to the *GSE*.

Model Act — The Mortgage Guaranty Insurance Model Act published by the NAIC in July 2000.

Mortgage Enterprise — A mortgage broker, lender, originator, seller or servicer of 1-4 family residential mortgages or any entity to which a *master policy* has been issued. The term does not include a *GSE.*

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Mortgage Guaranty Insurance	The primary or pool-level insurance or guarantee against financial loss by reason of nonpayment of principal, interest and other sums agreed to be paid under the terms of a note, bond or other evidence of the indebtedness secured by a mortgage, deed of trust or other instruments constituting an enforceable lien or its equivalent, or charge on personal property, or on real property (which terms shall not include any property commonly known as a "mobile home") that is an improvement designed for occupancy as a residential structure.
Mortgage Payment Record	A historical record of payments made by a borrower on a mortgage loan. Such record should include (at a minimum) the amount of each payment, the payment due dates, and the dates on which payments were received.
NAIC	The National Association of Insurance Commissioners.
Net Remaining Stop Loss	For pool mortgage guaranty insurance policies, the initial aggregate stop loss amount for the policy net of any pool policy deductible, minus any benefits paid to date.
Newly Approved Insurer	An *approved insurer* that has been an *approved insurer* for less than three years or an *approved insurer* that, at the *GSE's* discretion, is designated as a *newly approved insurer* due to a *material* change in *approved insurer's* ownership, control or organization.
Non-Exclusive Affiliated Reinsurer	A *reinsurance* entity *affiliated* with an *approved insurer* that provides *reinsurance* to insurers other than, or in addition to, the *approved insurer*.
Non-performing Loan-Level Pool Insurance RIF	For each loan covered by the *approved insurer* under a pool insurance policy that have, as of the reporting date, missed more than one monthly payment: the product of a) the initial insured principal balance and b) by the applicable loan-level coverage percentage defined by the pool policy. If there is no loan-level coverage percentage defined in the pool policy, multiply the initial insured principal balance by 100%. See Exhibit A.
Non-performing Primary Mortgage Guaranty Insurance	Primary *mortgage guaranty insurance* covering loans that have, as of the reporting date, missed more than one monthly payment. See Exhbit A.
Officer	An employee of the *approved insurer* that has been designated a corporate officer by its board of directors.

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Operational Performance Scorecard	A quarterly scorecard used by the *GSE* to monitor the operational performance of an *approved insurer*.
Pending Claim	A claim for mortgage insurance benefits that has been filed with an approved insurer but has not been paid.
Performing Pool Insurance RIF	*Risk in force* associated with loans covered by the *approved insurer* under a pool insurance policy that are, as of the reporting date, current or have not missed more than one monthly payment. See Exhibit A.
Performing Primary Adjusted RIF	*Risk in force*, after netting for any approved ceded risk in accordance with GSE guidance, associated with loans covered by the *approved insurer* under a primary *mortgage guaranty insurance* policy that are, as of the reporting date, current or have not missed more than one monthly payment. See Exhibit A.
Performing Primary Mortgage Guaranty Insurance	Primary mortgage guaranty insurance covering loans that are, as of the reporting date, current or have not missed more than one monthly payment. See Exhibit A.
Private Mortgage Insurance Eligibility Requirements or PMIERs	The *GSE's* published requirements along with all other conditions required by the *GSE* related to the approval of private (as opposed to government) mortgage guaranty insurer applicant for *approved insurer* status and the continued eligibility of an *approved insurer*.
Quota Share	A *reinsurance* arrangement whereby loan-level risk in the form of mortgage insurance claim payments and premiums are shared with a *reinsurer* on a proportional basis.
Rating Agency	Any one of the following nationally recognized rating agencies: Standard & Poors, Fitch, or Moody's
Reinsurance	A contractual obligation with one or more reinsurers to reinsure all or a portion of the ceded insurance risks of an *approved insurer*.
Reinsurer	A *reinsurer* is one of the following:

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1) An *approved insurer* unaffiliated with the ceding *approved insurer*, or

2) An *affiliate* of the ceding *approved insurer*, so long as (i) the ceding *approved insurer* meets the *eligibility requirements*, (ii) the *affiliate*'s sole purpose is to provide *reinsurance* for the ceding insurer, (iii) no direct or indirect ownership interest in the *affiliate* is held by a *mortgage enterprise*, and (iv) the *affiliate* is in compliance with applicable state insurance laws and regulations; or

3) A non-*affiliated* insurer or reinsurer that is not an *approved insurer* that meets all of the following requirements:

   a) A domestic or foreign (outside the state of domicile) *insurer*, or an alien, or a branch of an alien, insurance company (an insurance company incorporated under the laws of a foreign country), eligible and duly licensed to write *reinsurance* coverage, provided that the insurer or *reinsurer* also continually:
      i) Maintains a minimum total policyholder's surplus of $25,000,000, and
      ii) Maintains Financial Strength Rating of at least A- from either S&P or Fitch, A3 from Moody's, or A from A.M. Best, and
      iii) Complies with applicable state or foreign (if such reinsurer is not an admitted in the United States) laws, regulations and requirements.

REO — Real estate owned (REO) is property acquired through foreclosure or deed in lieu of foreclosure.

Risk-Based Required Asset Amount — As defined in Exhibit A.

Risk-in-Force (RIF) — The dollar amount of coverage the *approved insurer* has underwritten and is named as the obligated *insurer* or *reinsurer*, prior to any ceding or sharing of the risk with *exclusive affiliated reinsurers* or *lender captive reinsurers*, but net of risk ceded to *non-affiliated reinsurers* or to *non-exclusive affiliated reinsurers* on a *quota share* basis. In the case of primary insurance, the sum of each insured mortgage loan's current principal balance multiplied by such loan's coverage percentage or, in the case of pool insurance, the net remaining stop loss amount.

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Glossary

Risk Sharing Transaction	A transaction, agreement, program or arrangement involving the ceding, sharing, assuming, reimbursing or rebating, in whole or in part, of risks, liabilities, premiums, payments of any kind, including payments made in accordance with the terms of any *mortgage guaranty insurance* policy, or any other transfer of value, including without limitation, a *reinsurance* agreement, with any person including an *insured.* Excluded from this definition is the issuance of any new *mortgage guaranty insurance policy*.
Run-off	A status in which an *approved insurer* no longer issues new *mortgage guaranty insurance* policies but continues to be obligated under existing *mortgage guaranty insurance* policies.
Senior Management	The senior executives of the *approved insurer* responsible for managing the business that would typically include the chief executive officer, president, chief operating officer, chief financial officer and chief risk officer.
Suspension	Status when the *GSE* will not accept deliveries of mortgages insured by a formerly *approved insurer,* but the insurer has not been terminated.
Termination	Status in which a formerly *approved insurer* is not permitted to insure any loans owned by the *GSE* and is removed from the *GSE's* list of *approved insurers*.
Third-Party Risk Analytics Firm	A firm, acceptable to the *GSE,* engaged to conduct risk analytics of an *approved insurer's* book of business, including analyses such as projecting losses and claims paying ability.
Unearned Premium Reserves	An insurer's liability for its unearned premiums.

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The PMIERs should recognize the cash flow streams arising from contractual obligations to pay premiums for insured loans. Failure to include future premiums is at odds with market accepted principles including actuarially based FHA solvency reporting and with the way that the Federal Reserve's Comprehensive Capital Analysis and Review gives credit to banks for future cash flows from mortgage servicing. Recognizing future premiums has the added benefit of encouraging MI industry pricing discipline, because any decrease in premiums would have immediate impact on an approved insurer's available asset amount. Genworth had undertaken significant back-testing that validates our recommendations. Please see our response to **Question 31** for data regarding Genworth' s premium experience under severe stress (ever-to-date and modeled remaining life) for our 2005 – 2008 book years, demonstrating that even under severe stress, it is reasonable to assume at least four years of premium streams. In addition, our response to Question 31 provides additional data (loss and claims ratios as well as the percentage of claims covered by the premiums) regarding our experience that demonstrates that premiums for a vintage cover a substantial amount of the losses, even under extreme stress. Our data further supports our proposal to include 210 percent of prior year's earned premiums in the calculation of available assets

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In addition, for additional conservatism, we support (i) capping the aggregate premiums included as available assets to 35 percent (maximum concentration of total future premiums compared to total available assets) and (ii) when counting future premium attributable to single premium business, capping the amount included at 40 percent of the original unearned premium for any given vintage year. These caps would ensure a private mortgage insurer is not incented to "outrun" possible shortfalls in available assets by imprudently increasing its production on any single book year or product type. For similar reasons, we also recommend that for all books, future premiums be reduced by the amount of unearned premium reserves reflected in the insurer's statutory financial statements (consistent with the way the PMIERs treat the 2008 and prior book years).