Enterprise Capital Requirements Rulemaking
Proposed Rule (83 FR 33312 (July 17, 2018))

Meeting of the Federal Housing Finance Agency (FHFA) and Arch Capital Services Inc. on the Enterprise Capital Requirements Proposed Rule
August 30, 2018

Arch Attendees:
Andrew Rippert, CEO, Global Mortgage Group
Seamus Fearon, Chief Actuary, Global Mortgage Group
Sara Millard, General Counsel, Arch MI
Tom Jeter, Chief Financial Officer, Arch MI
Rania Nassar, SVP, Industry and Government Relations
Jeb Mason, The Cypress Group

FHFA Attendees:
Bob Ryan, Deputy Director Division of Conservatorship
Sandra Thompson, Deputy Director Division of Housing Mission and Goals
Naa Waa Tagoe, Senior Associate Director
Andrew Varrieur, Associate Director
Chris Vincent, Senior Financial Analyst
Chris Curtis, Senior Deputy General Counsel
Eric Stein, Special Advisor, Office of the Director
Miriam Smolen, Associate General Counsel

Summary: The subjects of the discussion was FHFA's proposed capital treatment of the Enterprises' assets including evaluation of credit risk, designation of counterparty strength, the use of buffers to address systemic risk, how to address the countercyclical risk and the benefits of transparency.

Specific topics included:

- The effect of the proposed rule, if it became final, during conservatorship, and the relationship between the rule and the Conservatorship Capital Framework (CCF).

- How the proposed rule addresses Unassigned Activities and the crossover with the Interim New Products rule.

- Credit risk evaluation is broadly similar in magnitude with the evaluation used under Basel. Other than net credits given for MI and CRT, capital equivalency is relatively the same. The Enterprises' mix of assets is different from the institutions to which Basel applies.

- The benefit of recognizing counterparty strength as an element in the rule. Arch discussed their desire for increased transparency into how an Enterprise measures counterparty strength and how that measure impacts fees.

- The benefits of an Enterprise using CRT transactions and the impact of such transactions with diverse counterparties that include debt markets, reinsurers and equity providers.

- The mechanics and impact of including a countercyclical capital buffer.

- Stress assumptions used in the proposed rule.

- The proposed rule’s inclusion of a minimum leverage capital and whether that constraint could create an incentive for the enterprises to cease their CRT programs and accumulate more risk.

- How additional buffers might address the systemic risk of an Enterprise.

- The proposed rule’s requirement for transparency, or lack thereof, of all of the sources and uses of capital so that the true capital requirements are not obfuscated.