Alfred M. Pollard
General Counsel
Attention: Comments/RIN 2590-AA95
Federal Housing Finance Agency
Eighth Floor
400 Seventh Street, SW
Washington, DC 20219

August 31, 2020

Dear Mr. Pollard:

This letter is submitted by the undersigned organizations, which collectively represent the U.S. insurance industry. We are writing in response to the Federal Housing Finance Agency's (FHFA) request for comments on its notice of proposed rulemaking on a new regulatory capital framework for the government-sponsored enterprises ("Enterprises"), Fannie Mae and Freddie Mac.[1]

Since 2013, our industry has supported the transfer of mortgage credit risk from the Enterprises to private sector as part of the rehabilitation of the Enterprises during government conservatorship. Since the inception of FHFA's successful Credit Risk Transfer (CRT) Program, the Enterprises have transferred over $130 billion of risk on over $4 trillion of single and multifamily mortgages through more than 200 CRT transactions. Of that, $30 billion of single-family risk and $2 billion of multifamily risk was transferred to over 40, highly-rated, diversified and well-capitalized (re)insurers.[2] During that same time period, over $398 billion of mortgage credit risk on $1.6 trillion was transferred to primary mortgage insurers.[3]

FHFA's proposed rule would reduce by half the credit the Enterprises receive today for credit risk transfer (CRT) under the risk-based capital requirements and provide no credit for CRT or mortgage insurance under the leverage ratio requirements. In addition, under the leverage ratio requirements, the Enterprises would need to hold additional capital with any existing CRT. With CRT's value materially diminished and unpredictability as to which capital requirements the Enterprises will be required to comply with in the future at any given period, there will be no incentive for the Enterprises to continue CRT.

(Re)insurance is a foundational element of the U.S. economy to distribute risk and protect people, businesses, and property against a variety of risks and loss.[4] Private sector, third-party risk analysis, pricing, and risk-sharing are long-standing and important mechanisms used by the private insurance marketplace. Property and casualty (re)insurance also is a material mitigant of systemic risk in the financial markets and broader economy. Utilization of (re)insurance has reduced systemic risk by diversifying insurance and credit risks and by transferring more of the enormous exposure currently borne by U.S. taxpayers. The Enterprises' mortgage credit risk is but one such example.

We are ready to work with the FHFA on solutions to the risk the Enterprises pose to U.S. taxpayers and the broader economy. We believe that the effective disincentivization of CRT and private mortgage insurance through FHFA's proposed rule is not the right solution and, in fact, may increase those risks. FHFA should modify its proposed rule to provide meaningful and consistent credit for CRT and incent the Enterprises to use CRT and private mortgage insurance to the benefit of U.S. homeowners, renters, taxpayers, and our economy.

Respectfully,

Reinsurance Association of America
The Council of Insurance Agents & Brokers
Wholesale & Specialty Insurance Association
U.S. Mortgage Insurers
American Property Casualty Insurance Association
The Surety & Fidelity Association of America
National Association of Mutual Insurance Companies
Independent Insurance Agents & Brokers of America

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[1] https://www.govinfo.gov/content/pkg/FR-2020-06-30/pdf/2020-11279.pdf
[2] Aon plc
[3] https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/CRT-Progress-Report-4Q2019.pdf
[4] https://www.iii.org/sites/default/files/docs/pdf/insurance-driver-econ-growth-053018.pdf