September 8, 2014

The Honorable Mel Watt
Director, Federal Housing Finance Agency
4000 7th St SW, Ninth Floor
Washington, D.C. 20024

Re: Private Mortgage Insurance Eligibility Requirements

Dear Director Watt:

Thank you for the opportunity to comment on FHFA's draft private mortgage insurer eligibility requirements, or PMIERs. We appreciate your willingness to seek public input on FHFA actions that could have a significant impact on the housing market, particularly the cost and availability of mortgage credit.

We fully understand the need to ensure the reliability of FHFA's private mortgage insurance counterparties. Clear and objective standards that apply to all of these companies will help reduce risk to the Enterprises and ultimately the taxpayer. However, we have serious concerns about the effect of some aspects of the proposed capital requirements on access to affordable credit.

Because the cost of private mortgage insurance by definition falls on lower-wealth borrowers, the PMIERs have as much of an impact, if not more of an impact, on first time and lower income homebuyers and homebuyers of color than guarantee fees. In our view, the proposed requirements will unnecessarily raise the cost of credit for the very borrowers for whom the GSE mission is most important, and we suggest that significant adjustments be made before finalizing them.

Our concerns relate both to overall capital levels required and to the risk-weighted grids. Specifically, Moody's Analytics estimates that proposed PMIERs will cause the average MI premium to increase by about 15 basis points, while borrowers with lower credit scores who make a five percent down payment could see a premium increase of 70 basis points.[1]

We will note that it is difficult to comment very specifically on how to change the PMIERs due to the lack of transparency regarding the risk models that FHFA is using. While a number of analysts have attempted to reverse engineer FHFA's models, it makes much more sense for FHFA to make its assumptions transparent so they can be properly examined.

The following are some specific suggestions for considerations that FHFA take into account when setting the requirements to avoid unnecessary increases in costs:

- **Eliminate the tiered capital weight structure imposed on higher DTI, higher LTV, and lower-FICO loans.** The proposed PMIERs impose extra capital requirements for loans with higher DTIs, higher LTVs and lower FICO scores. This risk-based approach particularly penalizes low-wealth people and people of color, who often cannot make a large down payment and whose credit scores, which often are lower for reasons of historical inequity, tend not to be the best predictor

[1] Mark Zandi, Jim Parrott, and Christian DeRitis, "Putting Mortgage Insurers on Solid Ground" (Moody's Analytics: 2014), available at http://www.urban.org/UploadedPDF/413213-Putting-Mortgage-Insurers-on-Solid-Ground.pdf

of risk.[2] Instead, we suggest modifying the PMIERs to require overall capital levels that are appropriate for the aggregate risk profile of an insurer's book rather than imposing granular, risk-based requirements for particular buckets of loans. In fact, we would suggest that FHFA has a responsibility to ensure the private mortgage insurers – who are in business largely due to GSE charter requirements – do not engage in excessive risk-based pricing that runs contrary to the charter mission.

- **Properly account for the lower risks associated with QM mortgages and seasoned loans.** We suggest that FHFA consider some mitigating factors that could reduce overall capital requirements. First, the requirements should recognize the significantly reduced risk represented by loans that meet the CFPB's Qualified Mortgage, or QM, standard. This standard defines loans that are sufficiently well underwritten to be given a safe harbor from liability under the Dodd-Frank Act's ability to repay requirements. Second, we recommend FHFA include a provision allowing for a reduction in capital that must be held against seasoned loans. A loan that has performed for a significant period of time since its origination represents a lower risk for mortgage insurers and the GSEs.

- **Count future premium income towards capital requirements.** Private mortgage insurers should be permitted to count some portion of their future premiums as liquid assets that qualify under their capital requirements. Moody's Analytics notes that this is an accepted practice for insurance companies and estimates this policy could significantly reduce the impact on borrowers.[3]

- **Provide capital relief for other risk-reduction efforts.** FHFA could consider offering capital relief for private mortgage insurers with an outstanding track record in serving borrowers or markets with less access to mortgage credit.

- **Coordinate guarantee fees with PMIERs**. In determining Enterprise g-fee risk-based pricing grids, FHFA has discounted the value of private mortgage insurance due to concerns about PMI capacity to pay claims. Following implementation of the PMIERs, the GSEs should properly account for the additional credit enhancement.

Again, we appreciate the opportunity to weigh in, and we look forward to continuing to work with you to ensure access to affordable credit for all communities across all markets.

Sincerely,

Center for American Progress

Community Legal Services

Consumer Federation of America

Empire Justice Center

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[2] Lisa Rice & Deirdre Swesnik, National Fair Housing Alliance, "Discriminatory Effects of Credit Scoring on Communities of Color," 46 Suffolk L. Rev. 935 (2013).

[3] Ibid.

Mortgage Finance Working Group

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