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January 16, 2024

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20219

Subject – Docket ID OCC-2023-0008 - Comment on Basel III Endgame - Proposed Rules to Strengthen Capital Requirements for Large Banks

Dear Federal Bank Regulatory Agencies,

I am writing as the President and Chief Executive Officer of Enact Holdings, Inc., which, through its subsidiaries, is one of six licensed private mortgage insurance companies in the United States that deploy private capital in a first-loss position to absorb default-related losses on high loan-to-value (LTV) ratio residential mortgage loans. You will also hear from our trade association, United States Mortgage Insurers ("USMI"), and several other organizations representing housing and consumer groups (HPC, MBA, and NHC), which share our views on the treatment of private mortgage insurance in the proposed Basel III Endgame rule. Because of the importance of this matter, I wanted to make sure you knew the impact on our ability to enable access to affordable housing finance for borrowers without large down payments.

Enact MI is a state domiciled private mortgage insurance company headquartered in Raleigh, NC doing business with over 1,700 mortgage lenders across the country, including close to 800 federally regulated commercial banks. We have 450 employees focused on providing insurance that opens the door to affordable and sustainable housing finance for homebuyers unable to come up with a 20% down payment, particularly underserved communities with limited access to generational wealth for large down payments[1]. It could take 35 years for a household earning the national median income[2] to save for a 20% down payment plus closing costs for a single-family home at the national median sales price[3]. With a 5% down payment and private MI, that time is reduced by 66%.

[1] Calculated based on median household income in 2021 (latest data available from the U.S. Census Bureau); median sales price for a single-family home in 2022, according to NAR; median savings rate in 2022, according to data from the Federal Reserve

[2] U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements, HINC-02 (2021)

[3] National Association of Realtor's National Median Home Price for a Single-family Home Calculated Based on Quarterly Reports of the "Metropolitan Median Home Prices and Affordability Index" (2022)

Our industry's work is particularly important in serving first-time and low- and moderate-income households: in 2022, private MI helped more than one million borrowers purchase or refinance a mortgage[4]. Nearly 35% of borrowers using private MI in 2022 had annual incomes below $75,000[5] and 62% of purchase loans with private MI went to first-time homebuyers[6]. Our mission of putting people in homes and keeping them there has never been more necessary than it is today, with the current interest rate environment and the limited supply of affordable housing.

While the bulk of our business today enables access to mortgages guaranteed by Fannie Mae and Freddie Mac, a portion of our business also provides first-loss coverage for commercial banks originating high LTV loans.

Currently, a high LTV mortgage with private MI coverage held in portfolio by a commercial bank receives a risk-weight of 50 percent. By definition, such a loan with mortgage insurance qualifies as a prudently underwritten mortgage under the current interagency guidance on real estate lending. The new proposal doubles the capital cost for making such loans for banking institutions with $100 billion or more in assets, even though these mortgage insurance-protected loans are still deemed to be "prudently underwritten" under applicable supervisory guidance.

Private mortgage insurance has served as a core tenant of safe and sound housing finance for the Government Sponsored Enterprises ("GSEs") and the banking industry. Indeed, the Urban Institute found that "the loss severity of GSE loans without [private MI] was 37.6%, higher than the 26.4% severity for loans with private MI."[7] As noted, by doubling the capital charge for covered institutions, the new Basel III Endgame proposal reduces the incentive for banks to make high LTV mortgages, thereby hurting low- and moderate-income homebuyers and first-time homebuyers and driving more federally regulated commercial banks from mortgage lending.

The private MI industry and the broader housing industry are significantly stronger and more tightly regulated since the last housing crisis. Through the ***Dodd-Frank Wall Street Reform and Consumer Protection Act***, consumers are better protected against predatory lending and harmful mortgage products. The private mortgage insurance industry has adopted numerous enhancements to become stronger and more resilient through capital and operational standards called PMIERs (**Private Mortgage Insurer Eligibility Requirements**), developed under the oversight of the Federal Housing Finance Agency. Beyond state regulation, PMIERs requires a mortgage insurance company to hold a significantly higher amount of regulatory capital to insure claims paying ability during a downturn. All six mortgage insurance companies meet and significantly exceed PMIERs capital standards; as of Q3 2023, private mortgage insurers hold, on average, 69% more capital than required by PMIERs[8].

Additionally, the mortgage insurance industry has strengthened its master policy to provide greater assurance of coverage and engages in the programmatic transfer of credit risk through

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[4] GSE Aggregate Data

[5] HMDA Data

[6] GSE Aggregate Data

[7] Urban Institute, "Mortgage Insurance Data At A Glance-2023" (August 2023)

[8] MI Companies' SEC Filings as of September 30, 2023

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traditional re-insurance and capital markets transactions with mortgage insurance-linked notes to further bolster its capital strength. The new Basel III Endgame proposal ignores these market improvements and regulatory corrections since the last downturn.

At the industry's very lowest point, after the global financial crisis, the treatment of private mortgage insurance was considered and affirmed by U.S. bank regulators when the current Basel III risk-based capital rule was adopted in 2013. Significant capital, operational, ratings upgrades, and market improvements have come since that 2013 affirmation, and the private mortgage insurance industry today is a far stronger counterparty to the commercial banking industry than ever before.

In today's high-cost housing market with limited supply, mortgage insurance provides an important bridge to first time homebuyers who would otherwise be priced out of a market.

I strongly encourage the federal banking regulators to reconsider the treatment of private mortgage insurance in the Basel III Endgame proposal and to restore the bank capital credit for high LTV lending with private mortgage insurance for all federally regulated institutions regardless of size.

Respectfully,

[redacted]

Rohit Gupta
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