MGIC Investment Corporation

Patrick Sinks
President and Chief Operating Officer

October 28, 2013

Honorable Ben S. Bernanke
Chairman
Board of Governors of the
Federal Reserve System
Washington, DC 20551

Honorable Shaun Donovan
Secretary
Department of Housing
and Urban Development
Washington, DC 20410

Mr. Thomas J. Curry
Comptroller
Office of the Comptroller of the Currency
Washington, DC 20219

Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
Washington, DC 20429

Mr. Edward J. DeMarco
Acting Director
Federal Housing Finance Agency
Washington, DC 20552

Honorable Mary Jo White
Chair
Securities and Exchange Commission
Washington, DC 20549

Re: **Credit Risk Retention Proposed Rule**
Transmitted electronically to www.regulations.gov regarding:

- OCC: (Docket No. OCC-2013-0010)
- Federal Reserve: (Docket No. R-1411)
- FDIC: (RIN 3064-AD74)
- SEC: (File Number S7-14-11)
- FHFA: (RIN 2590-AA43)
- HUD: (RIN 2501-AD-53)

Sir or Madam:

MGIC is pleased to comment on the agencies' proposed rule (New Proposed Rule) to implement the credit risk retention requirements in section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank).[i] The New Proposed Rule is broad in scope, complex in detail, and the changes made from the original credit risk retention proposal (Original Proposal) required approval from a large panel of federal regulators (collectively, the Agencies). Given those circumstances, the New Proposed Rule is a commendable effort.

MGIC will limit its response to the New Proposed Rule's treatment of the qualified residential mortgage (QRM) exemption from risk retention, and the recommended approach to make the

MGIC Plaza, P.O. Box 488, Milwaukee, Wisconsin 53201-0488, (414) 347-6809
Toll Free (800) 558-9900, FAX (414) 347-6559, E-mail: patrick_sinks@mgic.com

Consumer Financial Protection Bureau's qualified mortgage standard (QM) also satisfy the QRM standard (the Preferred Approach). MGIC believes the Preferred Approach improves considerably on the choices offered in the Original Proposal and the QM+ alternative in the New Proposed Rule in terms of meeting the three-pronged test set by regulators for the QRM exemption from the general credit risk retention standard – *i.e.,* (i) limits credit risk; (ii) preserves credit access; and (iii) facilitates compliance.[ii] The Original Proposal's QRM definitions would have resulted in a smaller pool of QRM-eligible loans, overly restricting credit access for small reductions in credit risk and increasing compliance complexity by requiring two distinct standards (QM and QRM) to be implemented by market stakeholders and administered by regulators. The QM+ alternative in the New Proposed Rule shares the limitations of the Original Proposal's QRM definitions. The Preferred Approach represents a significant improvement over those alternatives.

However, MGIC has one suggestion to further enhance the Preferred Approach: **recognize the customary market practice of requiring the use of a loan-level form of credit enhancement, including but not limited to private mortgage insurance (MI), on >80 CLTV loans**. The Preferred Approach increases the functional importance of proper underwriting for investor protection, particularly on historically riskier categories of loans. Loan-level credit enhancements such as MI provide additional underwriting scrutiny and a source of indemnity for investors if an insured loan default occurs. Current widespread use of loan-level credit enhancement means that recognizing this additional source of protection would not introduce any more implementation or subsequent compliance risk than use of the Preferred Approach alone for lower LTV loans. In fact, requiring a loan-level credit enhancement such as MI would further conform the QRM private securitization channel to other mortgage finance channels, providing the same benefit of reduced complexity for loan originators and securitizers as aligning QM and QRM in other respects. Borrowers and investors would benefit from inclusion of loan-level credit enhancement in the Preferred Approach as memories of the market downturn fade and the next expansive credit cycle begins.

Discussion

The Preferred Approach is better than the QRM alternatives in the Original Proposal.

The New Proposed Rule is a topically and administratively complex undertaking by the Agencies. MGIC generally applauds the effort. Given the global dimensions of the Great Financial Crisis and the economically crippling residential mortgage market downturn in the U.S., MGIC believes the issue of risk retention should be near the top of the agenda in terms of converting lessons learned into useful public policy. In that regard, MGIC targets its response to the residential mortgage asset class, and the QRM exemption from credit risk retention in particular. MGIC thinks the Preferred Approach in the New Proposed Rule offers a more balanced combination of limiting credit risk, preserving credit access, and facilitating compliance than either possibility included in the Original Proposal or the QM+ alternative in the New Proposed Rule. Each of the alternatives (those in the Original Proposal and the QM+ alternative) is likely to limit credit risk for investors. However, the benefit of limiting or reducing credit risk for investors comes at the cost of limited or reduced credit access to current and prospective homeowners (if securitizers and originators balk at the regulatory risk retention requirements).

The narrow QRM definitions offered in the Original Proposal and the QM+ alternative in the New Proposed Rule might produce two other undesirable outcomes. Limiting or reducing credit access in private markets complicates the task of reforming the current U.S. housing finance system, which relies heavily on Government-supported programs. MGIC and many others noted in their responses to the Original Proposal that policymakers' intentions to promote the use of private capital and scale back the use of the Federal Housing Administration's Mutual Mortgage Insurance Fund and other insurance/guarantee programs exempt from the general risk retention requirement could be frustrated by a restrictive QRM definition.[iii]

Additionally, the regulatory challenge prompted by the Dodd-Frank Act is substantial and still ongoing for regulators and mortgage market stakeholders alike, so opportunities for streamlining regulatory implementation should be encouraged. The New Proposed Rule appears to acknowledge both risks by offering the Preferred Approach (although the QM+ alternative does not have a comparable streamlining rationale).

The Preferred Approach could be improved further in four particular areas, however.

MGIC supports the Preferred Approach if no other changes are contemplated or accepted by the Agencies. However, to the extent the Agencies consider further changes, MGIC thinks the Preferred Approach can be improved in four particular areas.

<u>The first area relates to addressing regulatory concerns about low down-payment lending</u>. MGIC agrees with those who have argued that neither the text nor the legislative history of the Dodd-Frank Act supports the use of either a maximum LTV or a minimum down-payment requirement in a QRM definition.[iv] The New Proposed Rule does not include either in the Preferred Approach, but refers to the increased credit risk of low down-payment lending and offers QM+ as an alternative, which contains a 30% down-payment requirement.[v] MGIC believes that regulatory concerns about low down-payment lending can be handled within an amended version of the Preferred Approach without importing either maximum LTV or minimum down-payment requirements.

<u>The second area relates to the increased importance of underwriting in the Preferred Approach</u>. Because the Preferred Approach does not include a minimum down-payment or minimum creditworthiness standard (generally measured by a credit score), the Agencies place tremendous functional importance on getting the underwriting right to manage potential credit risk exposures (as do proponents of the Preferred Approach). However, the Preferred Approach does not create any systemic incentive to increase underwriting activity or even intensify underwriting scrutiny regarding categories of loans with historically higher default loss probabilities. The Preferred Approach allows underwriting to be the same whether the loan has an LTV of 59% or 95%. MGIC believes that strengthening the emphasis on underwriting in the Preferred Approach would be beneficial.

The third area relates to the reality of default losses on high LTV loans. Although the Dodd-Frank Act includes QRM as an exemption to the general credit risk retention requirement, having "skin in the game" remains important and desirable as a public policy aim. MGIC believes that it would be helpful to include a "fail-safe" response within the Preferred Approach to protect investors if underwriting fails to prevent idiosyncratic loan defaults.

The fourth area relates to the larger topic of comprehensive U.S. housing finance reform. MGIC believes that the Agencies should not miss any opportunity to harmonize the treatment of credit risk across the market "silos" of private securitization, securities guaranteed by the GSEs and Ginnie Mae, and bank portfolio lending in a way that does not result in a material increase in cost or complexity to investors, regulators, or market stakeholders. The widespread use of loan-level credit enhancement within Government-supported secondary mortgage market programs, at a time when nearly 9 of 10 loans rely on these programs, offers a historically unique market standardization opportunity. The capital incentives given for the use of loan-level credit enhancement on higher LTV loans by portfolio lenders under recently updated bank regulatory capital standards further supports inclusion of a loan-level credit enhancement requirement within the Preferred Approach applied to the private label residential mortgage securitization market.

The Preferred Approach could be improved by requiring the use of loan-level credit enhancement such as MI on all >80% CLTV loans.

MGIC believes recognizing existing market practice, and requiring the use of a loan-level form of credit enhancement, including but not limited to private mortgage insurance (MI) on >80 CLTV loans, would improve the Preferred Approach further in each of the areas mentioned above.

First, in terms of limiting credit risk default incidence, commonly referred to as "frequency", the Agencies have legitimate concerns regarding higher frequencies. Default incidence generally increases as LTV ratios increase, and the increase is non-linear.[vi] Although some have argued that credit scores are a better predictor than LTV of default incidence on low down-payment loans (in defense of the Preferred Approach and against any proposed use of an LTV or minimum down-payment standard in the ultimate QRM definition adopted by the Agencies),[vii] MGIC offers these practical observations:

- The Agencies note in the New Proposed Rule that higher LTV loans have higher default risk frequencies than lower LTV loans.
- The legislative history of the Dodd-Frank Act does not appear to support use of a minimum down-payment or a maximum LTV as part of the QRM definition.
- However, the Dodd-Frank Act refers specifically to loan-level credit enhancement such as MI (*i.e.,* "mortgage guarantee insurance or other types of insurance or credit enhancement obtained at the time of origination, to the extent such insurance or credit enhancement reduces the risk of default").

- The CFPB QM rule central to the Preferred Approach does not include either an LTV or credit score component.

Thus, MGIC suggests that the Preferred Approach could be strengthened by requiring use of a loan-level credit enhancement such as MI when QM loans exceed a stated LTV (for the sake of simplicity, the >80% LTV GSE standard could be used).[viii] The Dodd-Frank Act provides justification for the use of loan-level credit enhancement, and MGIC and others offered analytic support for the use of MI to reduce the risk of default in their responses to the Original Proposal.[ix] Proponents of the Preferred Approach have been so intent on resisting imposition of a down-payment requirement in any QRM definition that they have misread the Dodd-Frank Act and its legislative history. The Agencies are not required to ignore the additional risk of low down-payment loans because there is no textual or legislative history support for a minimum down-payment. Instead, the Agencies are instructed to consider the use of loan-level credit enhancement as a means of controlling this additional risk.

The drafters of the Dodd-Frank Act referred to loan-level credit enhancement for well understood reasons. Policymakers have long recognized the use of a loan-level credit enhancement such as mortgage insurance (in public and private varieties) is an effective means of mitigating the additional risk associated with low down-payment loans. The Preferred Approach works well as a broad template: requiring the use of a loan-level credit enhancement for higher LTV loans would augment the Preferred Approach, allay regulatory concerns regarding the additional risk of low down-payment lending, and do so in a way consistent with the legislative history and plain text of the Dodd-Frank Act.

Second, MGIC believes the Agencies rightly emphasized the importance of fundamental credit underwriting by proposing the Preferred Approach. The ongoing mortgage put-back litigation underlines the wisdom of restarting future private residential mortgage securitization activity with a renewed commitment to enforcing minimum underwriting standards. However, the Preferred Approach does not create any systemic incentive to increase underwriting activity or intensify underwriting scrutiny regarding categories of loans with historically higher default loss probabilities. QM is predominantly a liability rule allocating risk under the Truth in Lending Act, and does not compel additional underwriting diligence beyond satisfying QM requirements (which MGIC agrees are risk-reducing generally but do not address higher LTV risk in particular)

Requiring use of a loan-level credit enhancement for high LTV loans would address this potential shortcoming. A loan-level credit enhancement such as MI is both a process and product, strengthening the focus on underwriting and bringing a second pair of eyes to the credit assessment decision early enough in the process (at loan origination) to avoid the amplification of errors discovered later in the process or after a security has been purchased by investors. Relying on automated underwriting systems, pool-level statistical sampling, or after-the-fact due diligence reviews does not offer equivalent benefit.

Third, some loans will default despite careful underwriting, and higher LTV loans are more likely to be among those that fail. Because the CFPB QM rule central to the Preferred Approach does not address either LTV ratios or borrower credit scores, the Agencies in effect have no response to how investors' interests are protected by the Preferred Approach if default losses occur. A loan-level credit enhancement limits credit risk loss given default, or "severity", by backing its underwriting with capital at risk. This "skin in the game" could help to address what happens if the Preferred Approach proves insufficient for individual borrower risk. The financial benefit provided by this "skin in the game" is not theoretical: downturn-related claim payments made by the MI industry have exceeded $40 billion, and loan modifications have exceeded $130 billion to date.[x] Thus, rather than ignoring the loan loss severity issue on higher risk loans, a loan-level credit enhancement would use the available "skin in the game" for the benefit of investors even within an exemption from the general credit risk retention standard. MGIC believes this way of limiting credit losses strengthens the Preferred Approach further, and would allow investors to benefit in the future from the regulatory reforms involving loan-level credit enhancements such as MI.

Fourth, mortgage market legislative and regulatory reform brings with it sometimes conflicting imperatives. The QRM alternatives in the Original Proposal limited credit risk but limited credit access as well. The Agencies received much thoughtful commentary regarding the costs and benefits of the trade-off. MGIC believes the Preferred Approach offers a better trade-off between credit risk and credit access. As with the issue of minimum down-payment and maximum LTV requirements above, however, proponents of the Preferred Approach have overstated its prudential boundaries. An originator underwriting for its own account is likely to go beyond the boundaries of the CFPB QM rule to determine whether the credit risk is an acceptable one to hold on a longer term basis. In that regard, the use of loan-level credit enhancement is an accepted and well-tested method for providing credit access to lower wealth, higher risk borrowers. For example, MGIC has insurance-in-force of $159 billion with over 3000 master policyholder/originators, and total MI industry statistics are much greater. Mortgage insurance provided by HUD, VA, and USDA is integral to the Government-supported mortgage programs already exempt from any credit risk retention requirement under the Dodd-Frank Act. Credit access needs to be preserved for the entire credit cycle, and private label residential mortgage securitization markets have been very pro-cyclical. Requiring use of a loan-level credit enhancement would ensure that market capacity would be available consistently (and on consistent pricing and terms) for low down-payment borrowers and not simply on a pro-cyclical basis.

Related to the issue of balancing credit risk and credit access is the problem of how to do that without increasing cost or complexity. MGIC supports the simplification rationale underlying the Preferred Approach, and agrees that using one regulatory standard instead of two makes good sense when possible. However, MGIC suggests the Agencies' simplification rationale might be extended further in two ways – on a "micro" and "macro" level. On a micro level, the Agencies also might include within the Preferred Approach current market practices that would not increase regulatory cost or complexity, such as the use of loan-level credit enhancement on high LTV mortgages. Government-supported mortgage programs, whether the GSEs or the traditional Government programs, use loan-level credit enhancement on high LTV loans.

Originators, issuers, and servicers are familiar with its use, and have incorporated use of loan-level credit enhancement within their processes and loan products. Recognition of this use by the Agencies would not entail any additional compliance burden, and requiring use of a loan-level credit enhancement for high LTV loans would make the Preferred Approach more effective.

On a macro level, the Agencies and all mortgage market stakeholders are operating within a mortgage finance system widely characterized as temporary or transitional. Nearly 9 of 10 loans are originated and securitized through Government-supported programs. Although the ultimate shape of housing finance reform is still unknown, it is likely that continuity will be an important theme (*i.e.,* keep, use, and expand what works). In that regard, MGIC suggests that loan-level credit enhancement such as MI offers one such consolidation and extension possibility. Mortgage insurance (private and public) is used in the GSE and traditional Government-supported programs, and also by portfolio lenders under bank regulatory capital rules. Indeed, the use of a loan-level credit enhancement is integral to the bank regulatory concept of a "prudently underwritten" high LTV loan.[xi]

Extending use of this practice to private label residential mortgage securitizations by including it within the QRM definition would create uniformity across all parts of the U.S. mortgage market – "(post)GSE", Government, bank portfolio lending, and private securitization. This uniformity offers important systemic reform advantages, including:

- widespread current use, eliminating the execution risk and expense of incorporating a novel instrument into the mortgage origination/securitization process;

- independent underwriting standards that complement the Preferred Approach but bring additional rigor to credit assessment;

- consistency with bank regulatory macro-prudential best practices (both in terms of bringing additional capital to the securitization process, compared with the treatment of high LTV loans under the Preferred Approach, and, in the case of MI, countercyclical reserving contributed to the securitization process); and

- credit protection which results credit risk equivalent to <70 "net LTV", in effect matching the protection sought under the Original Proposal and the QM+ alternative presented in the New Proposed Rule without the potential credit access concerns.

MGIC is not recommending that the required loan-level credit enhancement be limited only to MI, but MI has received substantial (and largely supportive) scrutiny recently. The potentially unique angle that MI offers is a demonstrated ability to bridge the differences between the two QRM alternatives presented in the New Proposed Rule: use of MI is consistent with current market practice and the (QM = QRM) Preferred Approach, which satisfies concerns about an appropriate balance between limiting credit risk and promoting credit access, but the standard MI cover depth also is sufficient to reduce net LTV exposures below 70%, eliminates the use of subordinate liens, and scrutinizes borrower creditworthiness, all important concerns of the QM+

approach. Global financial regulatory bodies such as the Joint Forum and the Financial Stability Board also have examined MI's fitness to perform this vital role.[xii] Importantly, the Joint Forum report on MI also recognized the issue of adverse selection, which continues to be a risk presented by “piggyback” loan structures. MGIC recommends that any loan-level credit enhancement included within any final QRM definition meet standards sufficient to ensure regulatory and investor confidence regarding the independent role played in the credit assessment process, ensure claims-paying resources (capital/reserves) adequate to pay all valid claims, and include contracts that describe what is covered clearly and simply. In that regard, MGIC believes that MI as it is currently used in the U.S. mortgage market meets the necessary standard. Regulatory updates initiated by the Federal Housing Finance Agency and the National Association of Insurance Commissioners already in process will strengthen capabilities and increase confidence further.[xiii]

QRM is intended to work through incentives, not prohibitions. Unlike Canada, which imposes a mandatory requirement on federally chartered institutions to use mortgage insurance when making loans exceeding 80% LTV,[xiv] MGIC is suggesting including a generally accepted “nudge” to encourage responsible behavior. The private label securitization market experienced the worst excesses and poorest mortgage credit performance during the housing bubble and ensuing downturn, which prompted the Dodd-Frank Act, after all. Extending a best practice tested and proven in other parts of the U.S. residential mortgage market, particularly when the practice enhances the Preferred Approach, seems like a sensible choice.

QM+ introduces unnecessary execution risk and complexity into a fragile mortgage market, and the latent systemic and idiosyncratic credit risk posed by subordinate liens merits further scrutiny.

MGIC offers two brief final thoughts. Regarding QM+, the alternative has credit risk management/investor protection elements to be praised but at the significant risk of either reducing credit access or hoping that broad market liquidity will emerge by mixing together borrowers of various LTVs and credit quality (and requiring risk retention for those loans). QM+ also reintroduces concerns regarding execution risk and complexity that were present in the QRM alternatives included within the Original Proposal. A still-fragile mortgage market in a transition state does not need (and arguably cannot stand) execution risk and more complexity. MGIC cannot discount completely the possibility of another QRM definition emerging from the rulemaking process (*e.g.,* by adding a minimum down-payment similar to those proposed in many GSE and FHA reform proposals), but would restate the value of including a requirement for loan-level credit enhancement in that alternative as well.

The New Proposed Rule also asks about subordinate liens. Even after the downturn, some originators continue to offer “piggyback” simultaneous second loan structures, and presumably some would nominate a piggyback second as a form of loan-level credit enhancement. MGIC and other MI companies provided analytic work on MI v piggybacks in our responses to the Original Proposal. Piggybacks compare poorly to MI. Many borrowers experienced default and loan-modification-related difficulties as a result of conflicts between senior and subordinate lien holders. Investors fared poorly under those circumstances as well. Now, as the broad market and house values recovers, banks must confront reset/amortization risk of bubble era-originated home equity lines of credit. The MI industry warned consistently about piggyback lending (and subordinate lien equity extraction generally) as the housing bubble expanded, and the "default wolf" finally came. The Preferred Approach permits piggybacks, while QM+ does not, but at an unacceptably high cost. MGIC urges the Agencies to consider subordinate liens carefully, and explore the alternative of a combined LTV measure together with a loan-level credit enhancement requirement for high LTV loans in the final credit risk retention rule.

Conclusion

The New Proposed Rule is a significant piece of work and, in MGIC's view, the Preferred Approach improves considerably over the QRM alternatives in the Original Proposal. However, the Preferred Approach remains open to further change by the CFPB, and HUD's recent proposal of a materially different QM standard for the FHA threatens to introduce additional complexity into a market already challenged by ambitious compliance expectations. MGIC believes the Preferred Approach can be improved further by requiring use of loan-level credit enhancement such as MI for high LTV loans. Unlike MGIC's response to the Original Proposal, our suggestion does not seek to expand, but just reinforce, the QRM definition. This "enhancement" to the Preferred Approach simply extends current market practices, isn't inconsistent with QM implementation, is less disruptive than the QM+ alternative in the New Proposed Rule, would address the risks of subordinate liens for investors, and creates a regulatory "guard-rail" to protect investors in the future if making non-QM loans becomes more attractive to lenders (because risk retention has been softened in the New Proposed Rule).

MGIC stands ready to clarify its response or assist the Agencies as needed.

Sincerely yours,

Patrick Sinks

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[i] MGIC's offers this response to questions 89(a)-(c), 90, 92, 96(a), 97(a), 98 and 106 of the New Proposed Rule.
[ii] New Proposed Rule at 57989.
[iii] http://www.sec.gov/comments/s7-14-11/s71411-308.pdf.
[iv] See, e.g., http://www.bsnlawfirm.com/newsletter/OP0611_3.pdf. The author's presentation of the legislative history for Section 941 also supports inclusion of a loan-level credit enhancement such as MI.
[v] New Proposed Rule at 57990, 57994.
[vi] See, e.g., Statement of Rohit Gupta Before the Senate Committee on Banking, Housing, and Urban Affairs, Hearing on the Essentials of a Functioning Housing Finance System for Consumers (Oct. 29, 2013) at 3-4. http://www.banking.senate.gov/public/index.cfm?FuseAction=Hearings.Testimony&Hearing_ID=6398a9fd-fee5-4c89-a86d-a677a25df444&Witness_ID=a6698942-6077-4822-a9e0-ecd3cc351366.
[vii] See, e.g., http://blog.metrotrends.org/2013/09/fannie-mae-reduces-max-ltv-95-data-support-move/. MGIC and other MI providers include borrower creditworthiness measures within their underwriting criteria, so an argument

for the relative importance of credit scores versus LTVs is not an argument against the use of loan-level credit enhancement such as MI. http://www.mgic.com/pdfs/71-61210_bpmi_monthly.pdf (showing credit-tiered rates by LTV). Requiring use of a loan-level credit enhancement would not restrict credit access, either. MGIC's credit guidelines allow credit scores of 620 and LTV ratios of 97%, which is equal to or broader than the credit guidelines of lenders extending credit on an uninsured basis. http://www.housingwire.com/articles/26177-mgic-reveals-changes-to-underwriting-guidelines.

[viii] See, e.g., Section 302(a)(2)(B)(3)(b)(2)(Fannie Mae Charter Act), http://www.fhfa.gov/GetFile.aspx?FileID=29; Section 305(a)(2)(Freddie Mac Charter Act), http://www.fhfa.gov/GetFile.aspx?FileID=30. However, MGIC recommends use of a combined LTV (CLTV) standard to reduce incentives by originators and securitizers to arbitrage credit requirements. Investors should have a clear understanding of the risks presented by individual loans, and use of a CLTV standard helps to provide that understanding.

[ix] The Agencies in the New Proposed Rule refer to a study by the SEC which purports to demonstrate that MI is not associated with a reduced risk of default. (see Joshua White and Scott Bauguess, Qualified Residential Mortgage: Background Data Analysis on Credit Risk Retention, (August 2013), available at http://www.sec.gov/divisions/riskfin/whitepapers/qrm-analysis-08-2013.pdf) MGIC believes the study by White and Bauguess fails to adequately address the issue for numerous reasons. First, the authors rely on a unique data source composed entirely of loans from private securitization, only a tiny fraction of which have MI and which represent a tiny fraction of all insured loans. Second, the authors rely on a simple definition of default, ever 90 days past due, which fails to show the impact of MI on loan servicing. This specification also ignores the impact of censored observations due to the competing risk of voluntary prepayment. Third, the study attempts to control for LTV, but it uses aggregation levels that are significantly different from common industry practice with respect to MI. Fourth, the specification ignores home price appreciation, the single most important factor with respect to mortgage default. Fifth, the SEC study's authors make no attempt to compare their results with the submitted studies, explain the differences, and why their results should be considered superior. To be clear, MGIC is proposing the use of a loan-level credit enhancement, historically provided at loan origination, for high LTV loans. The use of "bulk" MI structures in bubble era private securitization structures, written on a variety of LTVs for Alt A and subprime loan products (now limited under QM), usually on a post-origination basis to benefit from the MI provider's credit rating, are not directly comparable to what the general market knows as "flow"MI used for conventional high LTV loans. MGIC replicated the SEC model on the same population used by Milliman in the study MGIC included within our response to the Original Proposal. MGIC obtained very similar coefficients as the SEC using the identical model specification. However, when MGIC switched the default definition to the one used by Milliman (*i.e.,* 90+ days past due and no cure) the coefficient on the presence of MI switched signs and was highly significant in both statistical and practical terms. MGIC stands by the conclusions of the Milliman study, urges the Agencies to review the original studies offered, and stands ready to discuss the issue further as needed.

[x] See footnote vi above at 8. MGIC and other MI providers also have responded to concerns expressed regarding policy rescission and claim settlement practices by clarifying scope of cover and policyholder obligations in the claim settlement process. See, e.g., http://www.mgic.com/gc/ (MGIC's Gold Cert Master Policy Endorsement). The impending adoption of uniform MI master policy wording for the GSEs also could be used for market standardization purposes to benefit investors (see footnote xiii below).

[xi] http://www.fdic.gov/regulations/laws/rules/2000-8700.html ("However, for any such loan with a loan-to-value that equals or exceeds 90 percent at origination, an institution should require appropriate credit enhancement in the form of either mortgage insurance or readily marketable collateral.").

[xii] https://www.bis.org/publ/joint33.htm (Joint Forum); http://www.financialstabilityboard.org/publications/r_130829c.pdf (Financial Stability Board).

[xiii] http://www.fhfa.gov/webfiles/25023/2013EnterpriseScorecard3413.pdf (FHFA Scorecard committing the GSEs to develop new counterparty risk management standards for MI providers that include uniform master policies and eligibility requirements); http://www.naic.org/committees_e_mortgage_guaranty_insurance_wg.htm (NAIC Mortgage Guaranty Insurance Working Group, mandated by the NAIC to update the state insurance regulatory framework applicable to MI).

[xiv] See footnote xii (Joint Forum report at 31).