USMI
U.S. Mortgage Insurers

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Before

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USMI's Thoughts and Recommendations on the Bipartisan Housing Finance Reform Act of 2018

Chairman Hensarling, Ranking Member Waters, and the members of the Committee, U.S. Mortgage Insurers (USMI)[1] appreciates this opportunity to come before you to discuss the housing finance system and opportunities for reform—and particularly the opportunity to consider and comment on the housing finance reform proposal released in September by Chairman Hensarling, Congressman Delaney, and Congressman Himes, the *Bipartisan Housing Finance Reform Act* (the "Discussion Draft"). The Discussion Draft represents an important marker in the discussion on housing finance reform because it acknowledges the need for an increased reliance on entities backed by private capital to shield taxpayers from mortgage credit risk, but also ensures that a reformed system creates incentives for properly underwritten and sustainable mortgage lending.

Importantly, private mortgage insurance (MI) is one of the very few forms of private capital/credit enhancement that is compatible with a number of different constructs for housing finance reform, including a model that relies on Ginnie Mae, such as the Discussion Draft, or a cooperative model such as that described in Ranking Member Waters' HOME Forward[2] proposal in 2014. Private mortgage insurance is a time-tested and sophisticated form of credit enhancement. USMI members have decades of experience independently underwriting, insuring, and dispersing mortgage credit risk.

This testimony will cover the following topics:

- The importance of MI in enabling homeownership while protecting taxpayers;
- Key improvements to the industry that make it more resilient going forward;
- Areas of the Discussion Draft supported by USMI and;
- Recommendations to strengthen the Discussion Draft.

MI functions to better shield taxpayers from mortgage related credit risks while ensuring that home-ready borrowers have sustainable access to prudent and affordable mortgage finance credit. Private mortgage insurance has been in the market for more than 60 years since the industry was founded in 1957 as an alternative to the Federal Housing Administration (FHA) for borrowers and lenders. While consumers routinely identify the down payment as the biggest impediment to buying a home, and a typical family would need approximately 20 years to save for a 20 percent down payment plus closing costs,[3] conventional loans with

[1] USMI is a trade association comprising the following private mortgage insurance companies: Essent Guaranty, Inc.; Genworth Mortgage Insurance Corporation; Mortgage Guaranty Insurance Corporation; National Mortgage Insurance Corporation; and Radian Guaranty Inc.

[2] "Housing Opportunities Move the Economy Forward Act of 2014." *Available at* https://democrats-financialservices.house.gov/uploadedfiles/media/file/003%20maxine%20waters%20legislation/gse%20bill/waters_046_xml.pdf.

[3] Calculations by USMI using methodology developed by the Center for Responsible Lending (CRL) based on median home price (National Association of REALTORS), median estimated closing costs (Zillow), median income (U.S. Census Bureau, Historical Income Tables, Table H-6), and annual savings rate dedicated for down payment (Bureau of Economic Analysis).

private MI allow borrowers to prudently get into homes with down payments as low as three percent. Over the past six decades, the MI industry has helped more than 30 million families attain homeownership in a prudent and affordable manner.

MI reduces taxpayer exposure by transferring, at origination, a substantial portion of mortgage credit risk to MI companies backed by private capital. Private MI is required to be a monoline form of insurance because, unlike other forms of capital markets executions and reinsurance, policymakers intended to ensure that a dedicated form of credit enhancement would be available across all housing market cycles. MI is one of the only sources of *permanent* private capital—capital provided through various market cycles—that does not rely on government backing. Throughout our 60-year history, including through the Great Recession, the MI industry *never* stopped paying claims, *never* stopped writing new insurance, and *never* received a "too big to fail" federal bailout. In fact, the MI industry has covered more than $50 billion in claims since Fannie Mae and Freddie Mac, the government-sponsored enterprises (GSEs), entered conservatorship in 2008.

The Importance of MI in Enabling Homeownership While Protecting Taxpayers

The Need for MI: First, it is important to understand *why* there is a need for private MI. Data demonstrates that borrowers who make larger down payments are less likely to default on their mortgages than lower down payment borrowers. Congress understood the additional risk posed by borrowers with lower down payments and the need to mitigate that risk, but Congress also understood the importance of ensuring that prudent and affordable low down payment options were available to home-ready borrowers. In 1970, Congress included in the GSEs' legislative charters, the requirement to obtain private credit enhancement on loans with down payments less than 20 percent.[4] This credit enhancement can be achieved in several ways—lender recourse, participation, or qualified insurance.

While private MI is not the only credit enhancement available under the GSEs' charters, for several reasons, private MI has been the most widely used in the high loan-to-value (LTV) space, including the benefits to borrowers and lenders:

1. ***MI makes homeownership possible for creditworthy homebuyers who do not have the resources for a large down payment***. MI has helped millions of Americans become homeowners sooner in both a prudent and affordable way by assuming a portion of the credit risk on their loans. According to research from both the Center for Responsible Lending and USMI, it could take approximately 23 years for the average firefighter or 20 years for the average middle school teacher to save for a 20 percent down payment plus closing costs.[5] Research by the National Association of REALTORS®[6] suggests that Americans continuously cite saving for a down payment as one of the biggest hurdles for attaining homeownership. Furthermore, the demographic landscape of U.S. homeownership is forecasted to look significantly different than in past decades, with the share of minority households projected to increase from 30 percent in 2010 to 38 percent by 2030[7] and account for approximately 80 percent of household formation for 2015-2035.[8] Due to limited assets and savings for a large down payment, minority families tend to overwhelmingly rely on low down payment mortgage options to

[4] Federal National Mortgage Association Charter Act, 12 U.S.C. 1717(b)(2) and Federal Home Loan Mortgage Corporation Act, 12 U.S.C. 1454(a)(2).
[5] Calculations by USMI using methodology developed by the Center for Responsible Lending (CRL) based on median home price (National Association of REALTORS), median estimated closing costs (Zillow), median income (U.S. Department of Labor, Bureau of Labor Statistics, Occupational Employment & Wages), and average annual savings rate and ratio dedicated for down payment (Federal Reserve).
[6] National Association of REALTORS, *2018 Profile of Home Buyers and Sellers* (October 29, 2018)
[7] Urban Institute, "Can the mortgage market handle the surge in minority homeownership?" (July 1, 2015).
[8] Harvard Joint Center for Housing Studies, *Updated Household Projections, 2015-2035: Methodology and Results* (December 12, 2016).

secure mortgage financing. Private MI is a reliable and prudent option to enable many of these low down payment borrowers achieve homeownership sooner.

In the past year alone, our industry has helped more than one million families purchase or refinance their mortgage with less than a 20 percent down payment. Nearly 60 percent of purchase borrowers who had private MI were first-time homebuyers[9] and MI is focused on low- to moderate-income borrowers; more than 40 percent of borrowers with MI have incomes below $75,000 per year.[10] And in the event a borrower encounters unexpected hardships, private MIs have a clear incentive to help borrowers avoid foreclosure. As one of the few entities in the mortgage finance chain whose business interests align with borrowers', private MIs have become an important resource to ensure sustainable homeownership is within reach for many borrowers.

2. ***MI is available to lenders of all sizes and types***. One reason that MI has worked so well and played such a significant role is its ability to be used by *any* approved lender of *any* size doing business with the GSEs. Private MI has the distinct advantage of being inclusive and scalable for originators of all types and sizes, including community banks, credit unions, and other small originators. MIs have relationships with several thousand financial institutions and compete on services provided to these institutions such as loan turn time, employee and borrower education, and streamlined technology. MI serves lenders by enabling them to originate high LTV loans on a capital efficient basis—as federal regulators recognize this credit enhancement and reduction in loss severity associated with mortgage insurance and provide capital relief to financial institutions with its use. Importantly, lender selection of credit enhancement has been a function of the primary mortgage market for more than 60 years and enables lenders to best serve borrowers and manage their counterparty risk.

3. ***Finally*, *MI serves the GSEs and ultimately protects taxpayers.*** Because MIs stand in a first-loss position on high LTV loans, MIs are motivated to provide an additional layer of strong underwriting and loss mitigation services to the housing finance system. When ultimately called upon, MIs are regulated and capitalized to withstand economic shocks as evidenced by the more than $50 billion paid in claims since the onset of the financial crisis—a direct benefit to taxpayers.

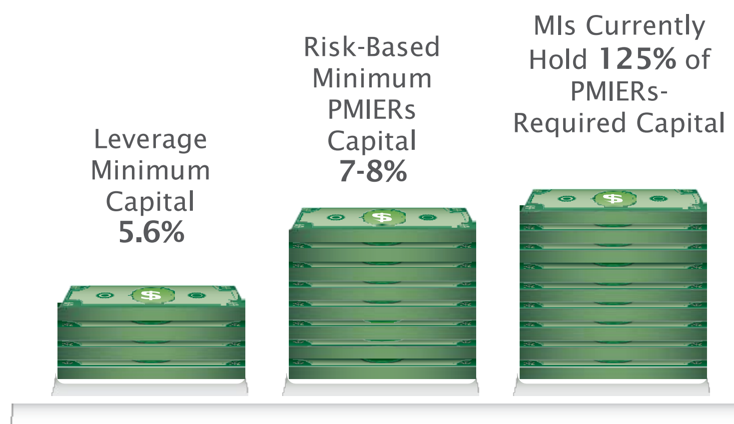
Key Improvements to the Industry that Make It More Resilient Going Forward

Simply put, the MI industry is not the same as it was 60 years ago. In fact, even within the last 10 years the industry has been significantly strengthened and improved through enhanced capital and regulatory requirements, underwriting, and technology investments. Serving as one of the only forms of private capital available to protect against and provide credit enhancement to borrowers through the financial crisis, the industry fully understands what it takes to withstand a significant downturn. MIs took the lessons from the financial crisis to heart by making several very significant updates: 1) the MI industry has drastically improved claims paying ability through new capital and operational standards, the Private Mortgage Insurer Eligibility Requirements (PMIERs), which have nearly doubled the required capital for MIs to do business with the GSEs; 2) the industry updated its Master Policy contracts to make it much clearer how and when a MI pays a claim; and 3) the industry continues to expand its use of credit risk transfer (CRT). CRT through an MI, however, is done in such a way where the MI industry—well capitalized going-concern companies with real skin-in-the game—actively manages its credit risk exposure

[9] GSE Aggregate Data
[10] USMI member data.

(including underwriting a significant portion of new business) and the industry holds capital against these executions. Since 2013, USMI members have transferred to the global capital and reinsurance markets $34 billion of risk, covering $160 billion of primary risk written.[11]

Enhanced and Increased Capital Standards – PMIERs. In addition to an ongoing effort to update the state insurance regulatory framework for MI,[12] MIs have new capital and operational standards under PMIERs issued by the GSEs in conjunction with FHFA. These increased capital requirements are more risk sensitive and the GSEs conduct regular monitoring of capital and operational compliance. MIs' minimum surplus and reserve requirements cause MIs to retain premiums earned during periods of economic expansion in order to be able to cover losses during downturns. Under the new risk sensitive requirements, most MIs have current asset requirement over 7 percent with a minimum 5.6 percent risk-in-force.



[13]

PMIERs are expressly designed to measure, monitor, and control mortgage insurer counterparty risk by establishing robust standards for the companies' capital levels, business activities, risk management, underwriting practices, quality control, and lender approval and monitoring activities. PMIERs are also updated —most recently in September 2018[14]—to address any new concerns that arise in the markets. As of the latest update to PMIERs, USMI members have maintained levels significantly over the PMIERs minimum requirements and USMI members collectively hold more $2.9 billion in excess of these requirements.[15] **The combination of PMIERs and state regulation results in a level of oversight that is significantly more robust and granular than that of other GSE counterparties.**

Updated Master Polices for MIs. New MI Master Policies went into effect in October 2014, following substantial input from FHFA. These Master Policies increase clarity of terms and streamline the payment of claims to ensure that, in the event of borrower default, the MI results in reliable and predictable claims payments. These new policies articulate in much greater detail the conditions, in some cases tied to quantitative thresholds, that must be met before coverage on an insured loan may be rescinded. The new Master Policies ensure timely, consistent, and accurate policy and claim administration, creating high visibility and

[11] USMI member data.
[12] The National Association of Insurance Commissioners (NAIC) is currently in the process of modifying its *Mortgage Guaranty Insurance Model Act* to revise areas of solvency regulation for mortgage insurers, particularly minimum capital and surplus requirements.
[13] PMIERs capital sufficiency ratio based on USMI member company 3Q2018 10-Q filings.
[14] Federal Housing Finance Agency, *Fannie Mae and Freddie Mac Update The Private Mortgage Insurer Eligibility Requirements* (September 27, 2018). *Available at* https://www.fhfa.gov/Media/PublicAffairs/Pages/Fannie-Mae-and-Freddie-Mac-Update-Their-Private-Mortgage-Insurer-Eligibility-Requirements.aspx.
[15] USMI member company 3Q2018 10-Q filings.

responsiveness for performing loss mitigation (workouts for borrowers who become late on their payments). MIs work with investors and servicers to help homeowners facing foreclosure. The industry's business model aligns with borrowers, investors and servicers not only to help put borrowers into homes, but to keep them there.

While MIs have made significant improvements to ensure resiliency going forward, as important are improvements in origination quality through the implementation of the Ability-To-Repay/Qualified Mortgage Rule (ATR/QM Rule)[16] and changes to lender representations and warranties on the quality of mortgages acquired by the GSEs that have resulted in a stronger mortgage finance system as a whole. The chart below demonstrates three significant developments that have each contributed to stabilizing the housing finance market and improved the quality of mortgage credit to the benefit of borrowers, lenders, and taxpayers alike.

Market/Regulatory Enhancements Post-Crisis		
ATR/QM Rule	**Representations & Warranties Framework**	**MI Underwriting**
Loan quality has vastly improved, with single-family delinquencies only being 0.79 percent for Fannie Mae and 0.71 percent for Freddie Mac,[17] representing the overall conventional market. Much of this is the result of enhanced lending standards stemming from the implementation of ATR/QM.	FHFA and the GSEs have engaged in a multi-year effort since 2012 to improve the Framework. Prior to this effort, the GSEs had significant discretion to determine whether or not a loan had underwriting defects and what constituted an appropriate remedy for a defective loan.	In addition to higher capital and operational standards through PMIERs and updated Master Policies, MIs have significantly increased their reviews of both their own and delegated underwriting.

The private MI industry is designed to protect lenders and investors from mortgage credit risk, while ensuring low down payment borrowers have access to safe, reliable and prudently underwritten mortgage credit.

Hensarling-Delaney-Himes *Bipartisan Housing Finance Reform Act of 2018*

The Discussion Draft underscores the importance of the conversation about reforming the nation's housing finance system. USMI continues to be supportive of comprehensive housing finance reform and believes that the Ginnie Mae construct for reform is a sensible approach that relies on existing infrastructure and systems to facilitate conventional mortgage financing. We see that the Discussion Draft affirms four fundamental bipartisan reform elements, all of which align with USMI's stated principles for housing finance reform:

1. **Protect Taxpayers**. The Discussion Draft recognizes the need for private capital, and clearly intends to put a significant amount of private capital ahead of taxpayers. The discussion draft also recognizes that a government guaranty should be remote and positioned behind that private capital. Further, the Discussion Draft recognizes and sustains some of the important gains that have been made in protecting consumers and taxpayers, such as a maximum LTV, loan limits, and a requirement to meet some definition of the ATR/QM Rule.
2. **Promote Stability**. The Discussion Draft also recognizes that to maintain stability in the secondary market and to sustain access to 30-year fixed rate mortgages, it is necessary to have an explicit guaranty by the federal government on qualifying mortgage-backed securities (MBS). Further, the proposal

[16] Ability to Repay and Qualified Mortgage Standards Under the Truth in Lending Act (Regulation Z), 78 Fed. Reg. 6407 (January 30, 2013).
[17] Fannie Mae Monthly Summary (October 2018) and Freddie Mac Monthly Volume Summary (October 2018).

promotes stability within the marketplace by incorporating parts of the mortgage finance system that exist and work well—notably by using the existing infrastructure of Ginnie Mae to separate the role of issuer and credit enhancer, preserve loan-level credit enhancement, and consolidate the government backstop authority into one program.

3. **Ensure Accessibility**. The Discussion Draft aims to make the government guaranty available to all lenders regardless of the size of the institution or the amount of volume produced by each lender. The proposal further promotes access by transferring proprietary systems developed by the GSEs in conservatorship to a publicly available Mortgage Security Market Exchange and encourages increased competition between issuers and credit enhancers within their segments of the housing finance system.
4. **Foster Transparency**. The Discussion Draft seeks to promote transparency in the marketplace by making all GSE loan-level data publicly available. As further discussed below, USMI agrees with these measures in the Discussion Draft and believes that even more can be done to promote transparency around pricing and underwriting.

Recommendations to Strengthen the *Bipartisan Housing Finance Reform Act of 2018*

Recommendation 1—To Better Protect Taxpayers and Promote Stability in the Conventional Market the Discussion Draft Should Require:

- **Loan-Level Credit Enhancement Issued at the Time of Origination.** USMI commends the approach to use the Ginnie Mae system in the Discussion Draft for a number of reasons, including that it separates the roles of issuer and credit enhancer, which reduces systemic risk without reducing borrower or lender access. Today, Ginnie Mae and its issuers are familiar with, recognize the value and utility of, and operate using loan-level insurance through the FHA, Veterans Affairs (VA), and Rural Housing Service (RHS) programs. We recommend expanding this approach for the conventional mortgage market by using private, entity-based loan-level credit enhancement providers that are subject to robust regulation and sufficiently capitalized to cover all expected losses. Simply put, this would modify Ginnie Mae's current operating model by substituting these private entities for the FHA, VA, or RHS as the primary insurers for conventional mortgages.

  Today, MIs provide both loan-level and pool insurance, and both forms of coverage face the same balancing act between achieving sufficient risk sensitivity to make coverage and pricing fair and achieving affordability for the largest possible number of consumers. Pool insurance has no advantage over loan-level in this regard. Further, the current Ginnie Mae system does not rely on "security-level" credit enhancement (pool insurance) and the reliance on pool insurance is not necessary merely because private capital is substituted for public support. However, USMI broadly believes that loan-level entity-based credit enhancers such as private MI companies have several advantages for sustaining access to credit and providing credit protection during all cycles. As Ginnie Mae already knows with their existing government insurance programs, loan-level credit enhancement is needed to *actively manage* credit risk, reduce losses at the individual borrower level, afford lenders the flexibility for secondary market execution, and ensure quality in loan manufacturing. Being part of the loan from the time it is originated today allows mortgage insurers to provide a second set of eyes when it comes to underwriting in order to ensure the borrower can afford the mortgage—and because MIs cover first loss—there is a further incentive to use strong underwriting, work with the borrower, servicer and investor in the event of default, which ultimately strengthens the mortgage finance system.

- **To Promote Stability Credit Protection Should be Provided by Entities Available Through Economic Cycles.** To ensure consumer access, taxpayer protection, and stability across all markets, the Discussion Draft should require that permanent sources of entity-based private capital providers have the ability to actively manage and insure mortgage credit risk during all market cycles. Doing so will increase transparency and accountability while reducing the government's dominance/control in the housing finance market and taxpayers' exposure to mortgage credit risk.

  While the reforms in the mortgage finance system to date (such as the ATR/QM Rule) should make future downturns in housing less severe and the system generally more resilient, another downturn is inevitable. Because of our monoline nature, MIs have a direct interest in being available to take mortgage credit and absorb mortgage losses through *all* credit cycles—something that is different from other forms of credit enhancement being explored today. Nearly all other forms of private capital taking mortgage credit risk prior to the financial crisis ceased to exist during the financial crisis. However, during its more than 60-year history, including the most recent financial crisis, the private MI industry has *never stopped writing new business and never stopped paying claims.* Private MI understands what it takes to be durable through cycles as the industry is one of the *only* time-tested *permanent* source of private capital that serves to protect lenders, the GSEs and taxpayers against first-loss credit risk. The mortgage insurance industry, as evidenced by its performance through the unprecedented downturn of the recent housing crisis, has demonstrated both its utility and resiliency.

  USMI has continually suggested that there is an important role for the new CRT partners and transaction types that the GSEs have experimented with over the last several years. However, it is important to note for any credit enhancement or CRT to have real value, it must be a ***reliable*** source of loss absorption when needed, ahead of the GSEs and, and it must be consistently ***available*** as a form of risk transfer, including during volatile mortgage credit markets.

  Therefore, it would make sense to require the entity-based private credit enhancers to underwrite, hold capital against, and use sound capital and risk management practices, including utilizing the reinsurance and capital markets when they are available. ***In this regard, it is appropriate that the bill encourage entities holding first loss credit risk to diversify risk on the back-end when these markets are available.***

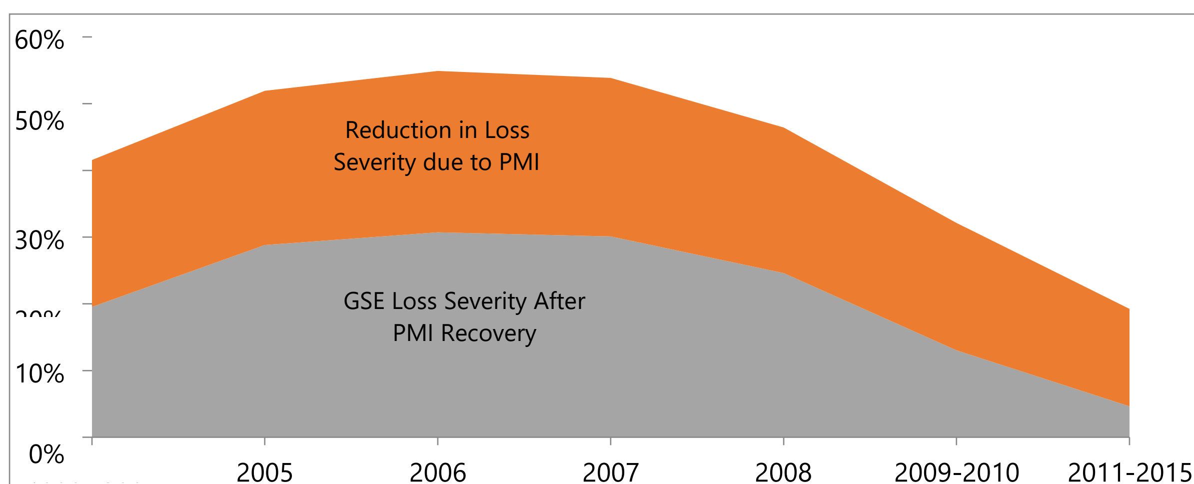
  The MI industry has decades of experience participating in reinsurance transactions in the normal course of business, a practice that allows MIs to disperse risk to enhance their capital allocations and manage risk exposure. In recent years, all USMI member companies have participated in various capital markets transactions, including a series of credit linked notes, that have expanded the industry's ability to lay off credit risk to other private market participants. Since 2013, USMI members have transferred to the global capital and reinsurance markets $34 billion of risk, covering $160 billion of primary risk written.[18] Expanding the proportional use of MI-based CRT will enhance the overall availability of CRT to the Enterprises and therefore contribute significantly to market stability.

- **To Better Protect Taxpayers, a Government Guaranty Should be Conditional on Private Capital Covering All but Remote Credit Loss – Drawn on Only in Catastrophic Scenarios.** To achieve this, it is essential that as a condition to receive the government's explicit guaranty, all loans must be credit enhanced—through a combination of a borrower's equity and first loss risk protection from an entity-based credit enhancer—to cover *all* expected losses. One of the principal aims of housing finance reform should be to increase the permanent sources of private capital standing in front of the government and taxpayers,

[18] USMI member data.

not reduce it. While FHFA or Ginnie Mae should establish what is "expected loss," data from the recent financial crisis suggests that if permanent private capital covers roughly 40 percent of first loss risk in all markets, the government and taxpayer exposure is virtually eliminated. One of the most efficient, effective, accessible and transparent means of achieving this credit protection is through use of greater credit enhancement—such as private mortgage insurance that covers 40 percent or 50 percent of the value of the loan—to reduce credit risk exposure to the most remote catastrophic risk. Today, private MI covers between 6 and 35 percent of the value of a loan depending on the size of the down payment, covering on average 25 percent of the value of a loan. According to the recent independent analysis by Urban Institute, the GSEs' overall risk exposure on "30-year fixed rate, fully documentation, fully amortizing mortgages, the loss severity of loans with PMI is 40 percent lower than that without, despite the higher LTV of mortgages with PMI."[19]

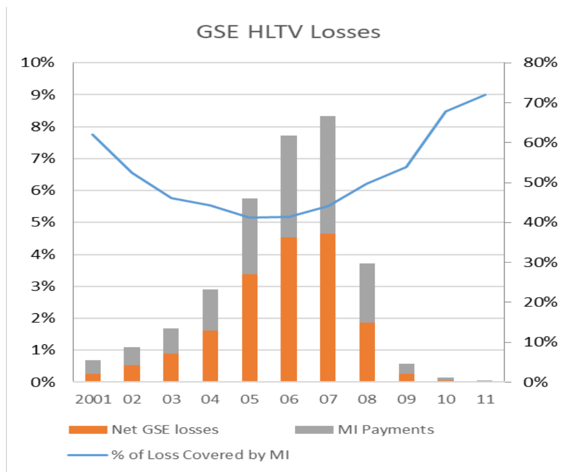
GSE Loans with PMI: Reduction in Loss Severity Because of PMI, by Origination Year Groupings



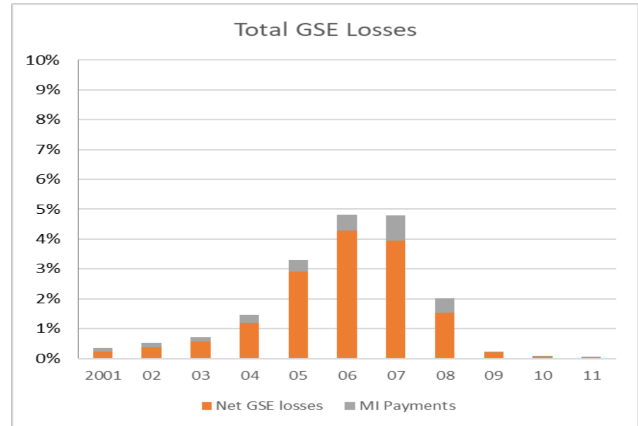
Sources: Fannie Mae, Freddie Mac, and the Urban Institute.
Note: GSE = government-sponsored enterprise; PMI = private mortgage insurance. The GSE credit data are limited to 30-year fixed- rate, full documentation, fully amortizing mortgage loans. Adjustable-rate mortgages and Relief Refinance Mortgages are not included. Fannie Mae data include loans originated from the first quarter of 1999 (Q1 1999) to Q4 2015, with performance information on these loans through Q3 2016. Freddie Mac data include loans originated from Q1 1999 to Q3 2015, with performance information on these loans through Q1 2016.

Further, as reported by Fannie Mae in a 2017 CRT investor presentation, standard coverages mortgage insurance covered over 40 percent of losses on high LTV loans during the recent financial crisis and covered roughly 70 percent of losses in recent book years.[20] It is essential that first loss risk be borne by private entities that meet strict capital and operational standards, that are able to underwrite mortgage credit risk, and that can be available throughout market cycles, ensuring that taxpayers are truly placed in a remote risk position.

[19] Urban Institute, *Sixty Years of Private Mortgage Insurance in the United States* (August 22, 2017).
[20] Fannie Mae Connecticut Avenue Securities (CAS) Investor Presentation (December 2017).



- **Standard MI covered over 40% of the losses** on high LTV loans in the crisis. ***Standard has covered approximately 70% for more recent book years.***
- Standard MI **should reduce GSEs' capital requirement by a minimum of 40%.**
- Deep cover MI (2x Standard) should reduce capital requirement by 80%.



- Overall losses hit a high of 4.8% in 2006-2007.
- Losses in the 60-80LTV bucket hit a high of 4.2% in 2006.

<u>Recommendation 2</u>—To Further Protect Taxpayers, the Discussion Draft Should Establish a Coordinated and Consistent Housing Policy Between the Conventional and Government Insured Markets

- **The Discussion Draft Should Include FHA Reforms.** Reforming the GSEs should not be done in a vacuum and any comprehensive housing finance reform proposal should include FHA Reform considering it represents approximately 30 percent of the insured mortgage market.[21] Any changes to reduce the conventional market (e.g., increasing down payment requirement from three percent to five percent) should also be done for FHA, or else this business will simply go to the 100 percent taxpayer-backed FHA. Without addressing both the conventional and FHA markets, the Discussion Draft would merely shift, rather than reduce, mortgage credit risk in the housing finance system.

- **Establish a Consistent and Coordinated Housing Policy.** For the long-term stability of the nation's housing finance system, it is critical that federal policymakers take a holistic approach to reform in order to create a coordinated housing policy. Federal policy should clarify which borrowers should be served by the conventional market and which are better served by government insurance programs.

<u>Recommendation 3</u>—To Promote Stability the Discussion Draft Should Establish a Level Playing Field and Increase Transparency and Accountability

- **Recommendation for the GSEs Post Conservatorship**. The separation of issuer and credit enhancer roles is a critical first step that must be applied to the GSEs post-conservatorship as well. Further, since being placed in conservatorship, the GSEs have made considerable investments in technology and systems to support the housing finance industry. These include the Common Securitization Platform (CSP), the Single Security Initiative, Day One Certainty/Loan Advisor. USMI strongly supports the transfer of data technology and other intellectual capital to the Mortgage Security Market Exchange as is done in the Discussion Draft and would suggest thorough care be taken to ensure that recent investments made at the GSEs (including the CSP) and Ginnie Mae are leveraged to ensure a well-functioning market.

[21] Inside Mortgage Finance, *Primary Mortgage Insurance Activity* (1Q2018 – 3Q2018).

- **FHFA should set comparable standards for participation of all private credit enhancement in the market place using a transparent Administrative Procedure Act (APA)[22] process.** It is appropriate that the Discussion Draft requires the FHFA/regulator to promulgate strong risk-based capital and operational standards for _all_ first loss credit enhancement providers. However, _all_ credit enhancement providers should have these same standards to ensure the availability of first loss, loan-level credit enhancement across market cycles. Further, FHFA should issue these requirements only after following APA guidelines for public notice and comment. It is important that the FHFA/regulator create uniform and transparent standards that promote a level playing field that doesn't advantage a certain class of entities over others.

Looking Ahead: Making a Stronger Tomorrow for Housing

To summarize, as Congress debates the many complex issues around the different important elements of housing finance, we are encouraged that there continues to be strong bipartisan support in the House and Senate for increasing private capital ahead of government and taxpayer risk exposure and we believe using Ginnie Mae is a sensible means to create a system that puts consumers and taxpayers' interests first. As Congress considers the viability of allowing Ginnie Mae to guaranty conventional loans, USMI thinks a good first step would be to consider a pilot program within Ginnie Mae to substitute loan-level private credit enhancement for insurance provided by a federal agency.

I am very proud to represent an industry that for more than 60 years has provided substantial private capital in front of a government guaranty, has durably served the market place, and has prudently helped millions of families realize the dream of homeownership. USMI strongly believes that the reform efforts this committee is considering to housing finance are critical and we believe much more can be done to reduce the risk to the federal government, make taxpayer risk exposure even more remote, and ensure that creditworthy borrowers have prudent access to mortgage credit. This can be done by:

- Increasing *permanent* private capital ahead of government and decreasing taxpayer risk exposure by requiring the use of entity-based loan-level credit enhancement at origination;
- Reducing taxpayer risk exposure by promoting coordinated and consistent housing policy between the conventional market backed by private capital and 100 percent taxpayer-backed FHA; and
- Establishing a level playing field among market participants to increase transparency, stability, and accountability.

We appreciate the opportunity to bring our experience and recommendations for putting the country's housing finance system on more stable footing. I look forward to answering your questions.

[22] 5 USC § 553.