



**Mortgage
Insurance
Companies
of America**

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Mr. Jay Knight
Attorney, Office of Rulemaking
Division of Corporation Finance
U.S. Securities & Exchange Commission
100 F St. NE
Washington, D.C. 20549

RE: Presentation to SEC by MICA on October 5 2010

Dear Mr. Knight:

I want to thank you and the rest of the SEC staff for recently meeting with senior executives from private mortgage insurance (MI) companies. You asked for a copy of the presentation and it is attached. I also thought it would be helpful to review the points we made on the role of MI in the Qualified Residential Mortgage (QRM) definition in the Dodd-Frank Act, that are derived from the attached presentation.

The attached analysis makes the following key policy points:

1. MI immediately puts private capital in a first-loss position on an insured loan directly after the borrower. MI capital remains at risk as long as the insurance is in place.
2. Because of their long-term exposure on an insured loan, MIs have instituted independent underwriting standards that provide credit-risk discipline. Although MIs have tightened these standards in the wake of the crisis, industry criteria were demonstrably tougher than those otherwise applicable in the mortgage market. This is clearly demonstrated in the data showing the substantively different delinquency and cure rates for "piggyback" mortgages (those with simultaneous first and second liens) and comparable insured loans. The higher cure rates are also attributed to the MI industry's active participation in foreclosure prevention initiatives. Over 289,000 trials have been started by mortgage insurers under the HAMP, with over 67,000 completed through the second quarter of 2010. Further, the industry has participated in over 55,500 approvals under the HARP. An even higher number of modifications have been designed by individual MIs and servicers so that there has been a total of over 462,000 completed workouts from 2008 through the second quarter of 2010 by the MI industry, covering over

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\$92 billion in mortgage loans. These same programs are typically absent from uninsured high LTV loans given the inherent conflict between the first and second lien holders on piggyback mortgages.

3. Because of their first-loss exposure and sole focus on residential mortgages, MIs are required to have a counter-cyclical capital model that builds reserves during good times to pay claims during bad times. This is of course the type of counter-cyclical capital bank regulators have urged now be required for insured depositories, although the requirements applicable to MIs are far more stringent than any under consideration for banking organizations. Also, MIs are prohibited from investing their premiums in mortgage-related assets. This protects against “correlation” risk – that is, an inability to honor claims because investments are housed in comparable assets.
4. All of these regulatory factors ensure that MIs have capital at risk and bring strong underwriting discipline to bear in the highest-risk sector of U. S. mortgage finance: low down payment loans. Additionally, from an investor protection perspective, mortgages with MI coverage offer transparency to the investor regarding the level of true credit risk mitigation in mortgage securitizations as compared to complex senior/subordinated securitization structures or reliance on credit rating agencies’ opinions regarding credit risk inherent in a securitization. These capital and transparency factors relating to MI coverage are critical as the SEC and other agencies consider the rule mandated in Section 941 of the Dodd-Frank Act requiring standards for the qualified residential mortgages to be exempted from the law’s risk-retention requirements.

Key findings in the analysis MICA presented at our meeting include the following:

- A study using publicly-available data of the performance of 3.8 million insured loans and 1.1 million uninsured piggyback loans, all originated from 2003 to 2007, shows that insured loans became delinquent 47% less frequently, cured 54% more frequently and have performed 65% better than comparable piggyback loans (see pages 9 and 10 of the attachment).
- Insured loans that had other attributes of a qualified mortgage (e.g., fixed rate or equivalent, full borrower documentation, debt-to-income ratios at or below 41% etc. See page 7 of the attachment for the attributes) have performed better than

piggybacks and better than other insured loans during the current downturn (see page 12 of the attachment).

We would be happy for technical staff from MI-member companies to meet with SEC staff to discuss any further details of the analysis and to answer any questions they may have concerning the likely future performance of insured QRM's given the historical performance of insured loans during the current downturn. As noted, the analysis we presented is derived from publicly-available data and we would also be pleased to guide your staff to our sources so that they may independently verify our conclusions if desired.

On a final note you asked me how mortgage insurance should be defined in a QRM regulation. MICA believes that the following three elements are essential to the definition of mortgage insurance:

1. Insure Against Risk of Loss - Mortgage guarantee insurance or other types of insurance or credit enhancement must insure against the risk of loss arising from nonpayment of, or default on, an individual mortgage or loan involved in a residential mortgage loan transaction. (This language is consistent with the Homeowners Protection Act of 1998, Public law 105-216, 12 U.S.C. sec. 4901.)
2. State Regulated Insurance - The insurance or credit enhancement must be provided by an entity regulated by a State insurance regulator. (This language is consistent with the Dodd- Frank Act, Public Law 111-203. It is contained in Title X, "Exclusion for Persons Regulated by a State Insurance Regulator.")
3. Appropriate Requirements in State Regulation - Each such state regulated entity must be required to maintain capital and contingency reserves in amounts not less than those required for entities regulated as monoline, mortgage guarantee insurers, including: minimum policyholder position, contingency reserves equal to one half of net earned premiums, case reserves, incurred but not reported loss reserves and loss adjustment expense reserves. In addition, such entity must be subject to limitations on dividends in excess of retained earnings.

A definition with these three elements would ensure that the entities insuring mortgages have the appropriate incentive alignment so that the mortgages originated are prudent and sustainable. It would also ensure that the insurers are well capitalized and well regulated so as to meet their obligations.

Please let me know if I can be of further assistance.

Sincerely,

Suzanne Hutchinson