**Communication Between Federal Reserve Board Staff**
**and Representatives of HVP, Inc.**
**December 22, 2010**

**Participants:** Flora Ahn (Federal Reserve Board)

James Connolly and Larry Flick (HVP)

**Summary:** Staff of the Federal Reserve Board received from HVP follow-up comments from the December 9, 2010 meeting on section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and risk retention requirements. A copy of the letter provided by HVP is attached below.

# HVP Inc.

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December 20, 2010

Flora H. Ahn
Attorney
Legal Division
Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

Dear Ms. Ahn,

Thank you for meeting with John Marthinsen, Larry Flick and me on December 9, 2010.

We are delighted with your reaction to HVP's Inc.'s home value and mortgage value insurance policies, which are novel because they designate the borrower as beneficiary and also provide the lender/investor with an option to assume premium payments and become the beneficiary if the borrower defaults. In accordance with the letter and spirit of the *Wall Street Reform and Consumer Protection Act of 2010*, we designed our products to minimize the likelihood that buyers will walk away from underwater mortgages by giving them the opportunity to sell their houses, pay off the mortgages, and avoid any negative impacts on their credit ratings. Free and clear of any mortgage obligations, buyers will then be in a position to re-enter the marketplace and buy a comparable (or better) house at a lower price. By encouraging demand and promoting an orderly supply of houses to the market, we feel strongly that that our products can prevent massive downward spirals in housing prices.

Historical Performance Data

In response to one of your suggestions last week, we have been working to address the Act's provision asking regulators to *consider* historical loan performance data. Because HVP Inc. is a new company selling innovative insurance products, we cannot produce historical figures showing hard evidence of the cause-and-effect relationship between our insurance policies and homeowner defaults. Rather, we are compiling historical performance data on analogous insurance and credit enhancement policies to show how they reduce the likelihood of default. Our hope is that, by inference, examples of similar products will fortify our case for the efficacy of HVP Inc.'s policies.

A long put option is one of the first examples that came to our minds. For example, European Union (EU) exporters often bill U.S. importers in euros, and many U.S. importers agree to make payment by means of loan-secured letters of credit. By hedging against the dollar's depreciation, these importers can reduce the credit (default) risks associated with these loans. The purchase of dollar (for euro) put options allows U.S. importers to enjoy the benefits of a dollar appreciation without any worries about the currency's depreciation. HVP Inc.'s insurance policies are similar to long put options in the sense that they allow homeowners to benefit from any appreciation in their homes' values but protect them from reductions in real estate prices, thereby, reducing the risk of borrower default. In the coming days, we will be looking for similar examples to bolster our contention that HVP Inc.'s policies reduce the risk of default.

To empower the full potential of the U.S. marketplace to solve our housing problem, we urge you, in your rule-writing capacity, to draft language that encourages new, innovative insurance products, such as ours. To this end, the language you draft should allow safe and sound entrepreneurial ventures, such as ours, to offer products that are eligible for status as "Qualified Residential Mortgages." We respectfully and kindly propose the following language to clarify criterion (iv) (page 529) of Section 941(b) in *The Wall Street Reform and Consumer Protection Act of 2010:*

> The phrase "Mortgage guarantee insurance or other types of insurance obtained at the time of origination" refers to contracts that make a loan less risky by reducing the chance of default *by the borrower*. Examples of contracts that meet this criterion are home value insurance, mortgage value insurance, and credit enhancement policies that designate the borrower as the beneficiary and might also allow the lender/investor to assume premium payments and become the beneficiary in rare cases when a borrower defaults."

Let me end by expressing, again, how grateful we were for the opportunity to meet with you and your colleagues to discuss HVP Inc.'s novel insurance policies. We believe that our products reduce the risk of mortgage defaults, lower the incidence of foreclosures, and buffer panic-driven downward housing spirals. Our products also have a salutary effect on both the U.S. economy and global marketplace

Sincerely yours,

James M Connolly

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