October 22, 2012

Office of the Comptroller of the Currency
250 E Street, S.W.
Mail Stop 2-3
Washington, D.C. 20219
OCC Docket ID OCC-2012-0009; RIN 1557-AD46

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
Docket No. R-1442; RIN No. 7100 AD-87

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
FDIC, RIN 3064-AD96

Title: Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements

Ladies and Gentlemen:

The undersigned companies are writing in our capacity as private mortgage insurers to offer our response to the agencies listed above (the "Agencies") on the joint notice of proposed rulemaking (the "Standardized Approach NPR" or "NPR") to revise and replace the Agencies' current capital rules. We are keenly interested in ensuring that the Agencies continue the long standing practice of recognizing and granting appropriate treatment to private mortgage insurance ("private MI" or "MI").[1]

MI written by well capitalized, regulated insurers offers a reliable, transparent and cost effective way to offset credit losses on residential mortgage assets. When an MI provider insures a loan, economically that risk exposure is supported by the pool of capital the MI is required to maintain and the MI's claims-paying obligations are senior to all other obligations.

[1] The Agencies solicit comment regarding private mortgage insurance in Question 6 of the NPR.

Claims-paying capacity is supported by a distinctive reserving model that requires contingency reserves of 50% of earned premium income for each book year, in addition to the establishment of GAAP reserves for expected losses on loans in default. These contingency reserves must be held for ten years (with release permitted only in limited circumstances). The contingency reserve framework addresses the long-lived and cyclical nature of well-underwritten mortgage credit risk, with defaults and losses generally modest but capable of increasing very significantly under conditions of material economic and housing market stress. In recognition of these stress periods, this prudential contingency reserving methodology creates a countercyclical component to an MI provider's capital structure.

Paying billions in claims that reduced mortgage credit losses for lenders and mortgage investors, the recent crisis demonstrated that the fundamental framework of the MI model worked, but also identified the need for enhancements. Key learnings from the crisis for the MI industry are (1) the need for more transparent and reliable contractual terms for the payment of claims (2) the need for capital levels that reflect the risk of economic stress and the level of risk of the insured portfolio so that claims can be fully paid. These lessons are not isolated to the MI industry. They were abundantly evident across all major sectors of the mortgage market and necessitated significant reforms.

Within the MI industry, the issues of reliability of claim payment are being addressed, through revised contractual terms and improved business practices. These changes are occurring in response to customer feedback and private MI providers are making substantial changes intended to provide customers with greater clarity regarding the terms of insurance coverage and the fair treatment of claims. While terms will continue to evolve, we believe banks and the Agencies can and will be provided in industry comment letters sound criteria by which to judge that MI contractual terms meet sound prudential standards that merit capital recognition.

With regard to claims paying capacity, we are committed to working with the Agencies to provide a transparent, verifiable means to measure claims paying adequacy that will complement our existing regulation and oversight. Our monoline structure (which limits the types of risks to which MIs are exposed) makes it possible to assess an MI's claims paying ability under stress without needing more complex models required for entities that engage in multiple business lines and are exposed to complex structures.

Specifically, we are recommending the development of a stress test to measure claims paying adequacy that evaluates the risk an MI provider is insuring, takes into account the primary drivers of loan default, and determines whether that MI has resources sufficient to pay claims under severe and prolonged stress. We believe that this model should:

- Evaluate the insured book on a run-off, standalone basis that does not rely on assumptions regarding future new business;
- Take into account variations in mortgage risk-related factors such as product type, loan to value ratio and borrower credit history;

- Project claim losses under conditions of severe economic and housing stress on the MI provider's insured book of business, estimated from the actual performance of MI insured loans in the most recent crisis; and
- Assume all insured business will be subject to such stress at the time of evaluation, and conduct such an evaluation on a periodic basis.

The proposed stress test should calculate resources required to pay claims under stress and compare that to resources available to pay claims. The ratio of resources available to resources required would then be used as the basis to determine that an MI is financially sound.

We believe a stress test is a practical and effective means to continually evaluate MI providers. We welcome the opportunity to meet with the Agencies to further discuss our proposal and to answer any questions you may have regarding our industry. Please feel free to contact any of the undersigned.

Very truly yours,

Essent Guaranty, Inc.
Genworth Financial
Mortgage Guaranty Insurance Corporation
National Mortgage Insurance Corporation
Radian Guaranty Inc.