Genworth

Rohit Gupta
President & CEO
Mortgage Insurance – U.S.

Genworth Mortgage Insurance
8325 Six Forks Road
Raleigh, NC 27615
919 870.2380
919 870.3615 fax
Rohit.gupta@genworth.com
www.genworth.com

October 30, 2013

Robert deV. Frierson
Secretary
Board of Governors of the
Federal Reserve System
20th Street & Constitution Avenue, NW
Washington, DC 20551
FRB Docket No. R-1411

Regulations Division
Office of General Counsel
Department of Housing and
Urban Development
451 7th Street, SW, Room 10276
Washington, DC 20410-0500
HUD RIN 2501-AD53

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
FDIC RIN 3064-AD74

Alfred M. Pollard
General Counsel
Attention: Comments/RIN 2590-AA43
Federal Housing Finance Agency
Constitution Center, (OGC) Eighth Floor
400 7th Street, SW
Washington, DC 20024
FHFA RIN 2590-AA43

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street, SW, Suite 3E-218
Mail Stop 9W-11
Washington, DC 20219
OCC Docket ID OCC-2013-0010

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
SEC File No. S7-14-11

Re: Credit Risk Retention

Ladies and Gentlemen:

Genworth Financial's U.S. Mortgage Insurance business ("Genworth") is pleased to submit our comments on the Second Notice of Proposed Rulemaking (the "new proposal") to Implement Section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). We will begin our comments by providing an overview of issues we are addressing, and we will then provide responses to selected questions you have asked in the new proposal. Our comments will focus on the definition of Qualified Residential Mortgage ("QRM") and the alternative referred to as "QM plus."

Overview of issues related to QRM.

Genworth was among the many commentators that raised serious concerns about the market impact of an overly narrow approach to exempting prudently underwritten mortgage loans

from the risk retention requirements under Dodd-Frank, and we are pleased that the new proposal contemplates a broader definition of QRM.[1] As we will further discuss below, a QRM that aligns with the Qualified Mortgage ("QM") definition promulgated by the Consumer Financial Protection Bureau ("CFPB") will have a broad market reach that is likely to include the important cohorts of first time and low to moderate income homebuyers and homebuyers who are members of underserved communities.[2] When underwritten and originated with terms and features that are consistent with sound risk management practices and policies, QRMs should perform in a manner that will promote a stable housing finance system across economic cycles. We note that the broad approach taken by the Agencies relies on market participants (especially originators and investors) to adhere to prudent credit underwriting standards, especially in the case of the riskier loans that will fall within the QRM definition (such as loans with higher debt to income ratios ("DTIs") and higher combined loan to value ratios ("CLTVs")).[3] Still, Genworth believes that this approach strikes a reasonable balance between the need for regulatory prescription and the benefits of permitting market participants to have flexibility regarding the assessment and allocation of risk.

The Agencies could have elected to rely less on the market's risk discipline and instead minimize risk by limiting certain higher risk features – for example, capping DTIs or CLTVs – or requiring certain default loss mitigation (e.g., private mortgage insurance) on higher risk loans. SEC Commissioner Daniel Gallagher advocated for a more prescriptive approach in his dissenting statement in which he characterized the QRM definition as being "deeply flawed".[4] Genworth agrees with the view that underwriting criteria, including the amount of a down payment, impact loan performance and loss severity. To illustrate the impact of down payment, Genworth analyzed default rates for QRMs by CLTV (up to 97%). As seen in the chart below, QRMs with higher CLTVs experience higher default rates than lower CLTV QRMs.

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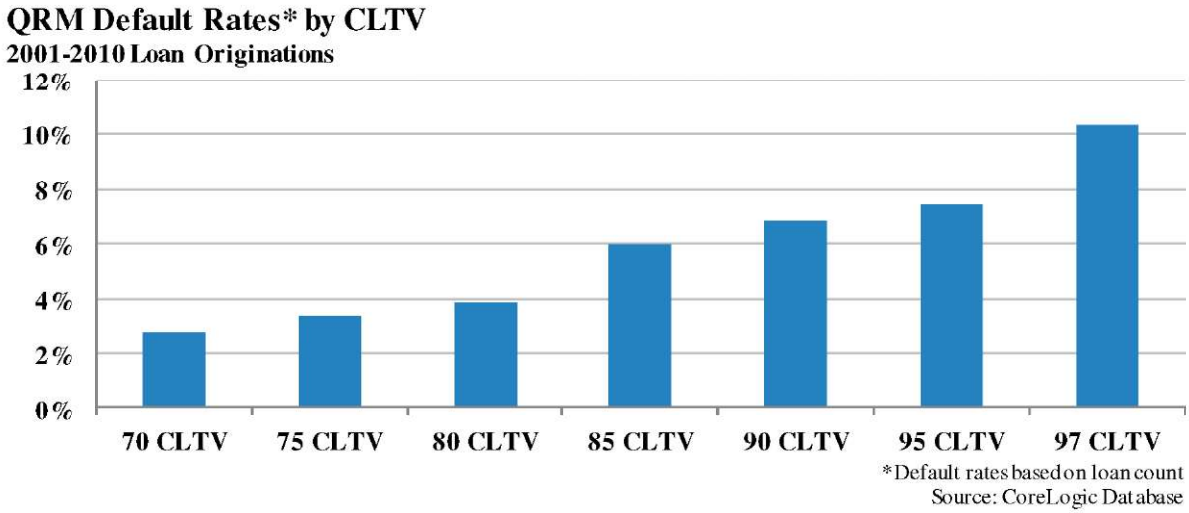
[1] Genworth's comment letter on the original credit risk retention proposal, submitted on July 28, 2011, is available at http://www.fdic.gov/regulations/laws/federal/2011/11c147ad74.pdf.

[2] See "Ability-to-Repay and Qualified Mortgage Standards Under the Truth in Lending Act (Regulation Z); Final Rule." Federal Register 78:113 (June 12, 2013), pp. 35430 – 35506. Available at http://www.gpo.gov/fdsys/pkg/FR-2013-06-12/pdf/2013-13173.pdf.

[3] In this comment letter, the term "Agencies" refers to the Federal Reserve, FDIC, HUD, SEC, FHFA and OCC.

[4] See Gallagher Dissenting Statement at http://www.sec.gov/News/PublicStmt/Detail/PublicStmt/1370539792762 ("The re-proposal completely abandons the definition of QRM set forth by the agencies in the original proposal and instead adopts the deeply flawed definition of "qualified mortgage" (QM) set forth by the Consumer Financial Protection Bureau (CFPB) earlier this year.")



CLTV has a very strong, and undisputed, correlation to default risk. However, as discussed in "Performance of QRM and QM plus loans" below, the data also make it very clear that there is a responsible way to offer high CLTV loans. The key is to make sure that they are prudently underwritten and have the benefit of credit loss mitigation (usually MI) in the event of default.[5]

Concerns about eliminating some of the underwriting criteria included in the original proposal may have driven the Agencies' discussion of the alternative "QM plus" definition in the new proposal.[6] However, with its extremely high down payment requirements and very restrictive credit standards, a QM plus approach would unnecessarily penalize many creditworthy borrowers who deserve the opportunity to purchase a home on the best available terms. Should the Agencies decide to issue a final rule that includes a down payment requirement, we urge you to include lower down payment loans when private mortgage insurance is used to mitigate losses in the event of default. Doing so would expand the availability of credit for responsible borrowers while offsetting losses, thus striking an appropriate balance between risk and access. As seen in the graph below, including a down payment requirement of three percent in QRM (along with a requirement for MI or comparable credit enhancement) would result in a QRM that still had broad market reach but that also addressed concerns about higher losses on lower down payment loans.

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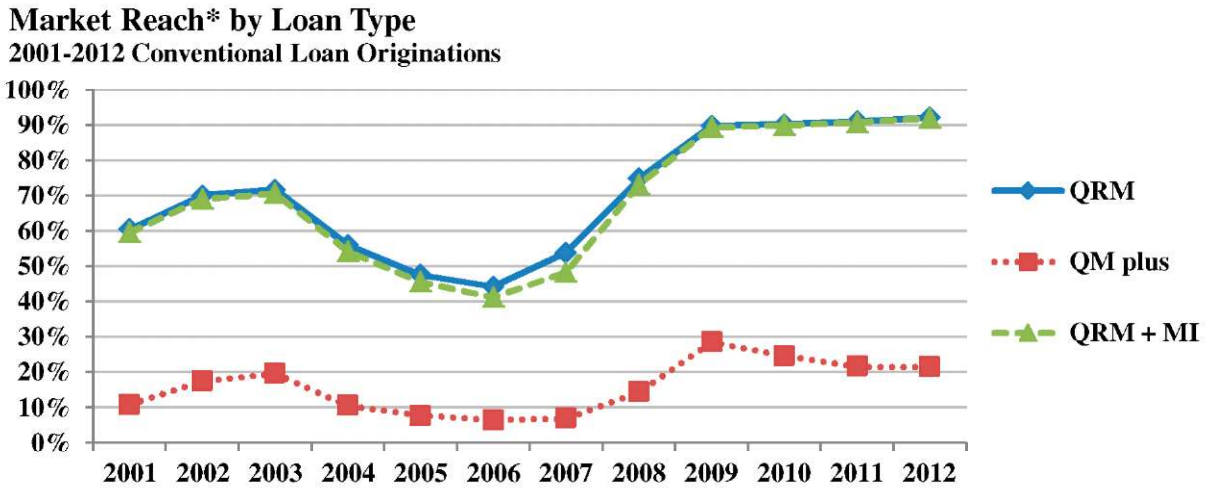
[5] For a discussion of the role of MI in assuring access to low down payment loans, and the need to balance statute and regulation, see http://www.banking.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=def8b8ec-055a-4153-84de-0ffd273477fc.

[6] QM plus loans are subject to criteria that do not apply to QRMs: LTV ratio is capped at 70 percent; junior liens are not permitted for purchase loans, the mortgage must be secured by a primary residence and borrower credit history must meet specified standards.



*Market reach based on loan count
Source: CoreLogic Database

Performance of QRM and QM plus loans.

In order to evaluate the performance of QRM and QM plus loans and confirm that the new proposal strikes an appropriate balance between performance and market access, Genworth undertook a loan level analysis of approximately 53 million residential mortgage loans with an aggregate principal amount of approximately $11 trillion originated from 2001 – 2010 and contained in the CoreLogic Loan Level Market Analytics Database ("CoreLogic Database").[7] For ease of reference, the table below summarizes the key features of QRM and QM plus loans.

[7] The performance data is included in Exhibit A - Analysis of CoreLogic Loan Level Market Analytics Data.

	QRM	QM plus
Back DTI	43%	43%
Temporary DTI Exception	Eligible for purchase by GSE, or insurance/guarantee by FHA, VA, USDA*	Eligible for insurance/guarantee by FHA, VA, USDA*
ARM	Underwrite to maximum rate in 1st 5 yrs	Underwrite to maximum rate in 1st 5 yrs
Small Creditor DTI Exception	No DTI cap if loan held in portfolio 3 years	N/A
Purchase CLTV/Piggyback	NA / Yes	70% / No
Refinance CLTV/Junior Lien	NA / Yes	70% / Yes
Negative Amortization	No	No
Interest Only	No	No
Balloons	Small creditor exception	No
Points and Fees	3% cap on loans >= $100,000	3% cap on loans >= $100,000
Prepay Penalty - Fixed Rate	Maximum penalty included in points and fees	Maximum penalty included in points and fees
Prepay Penalty - ARM	Prohibited	Prohibited
Credit History	N/A	690**
Max Term	30yr	30yr
Property Type	Any dwelling	1 to 4 family
Occupancy	Primary/Second Home/Investor	Primary
Documentation	Full	Full

*QRMs include loans permitted under the CFPB's "temporary QM" definition: loans eligible to be purchased by Fannie Mae or Freddie Mac and loans eligible to be insured or guaranteed by FHA, VA or USDA. The temporary QM proviso for GSE loans lasts for the lesser of seven years and so long as they are in conservatorship, and for FHA, VA and USDA loans it lasts for the lesser of seven years and until the government agency implements its own rule. QM plus does not include the temporary QM proviso for loans eligible to be purchased by Fannie Mae or Freddie Mac.
** 690 FICO score is used as a proxy for the credit history included in the new proposal.

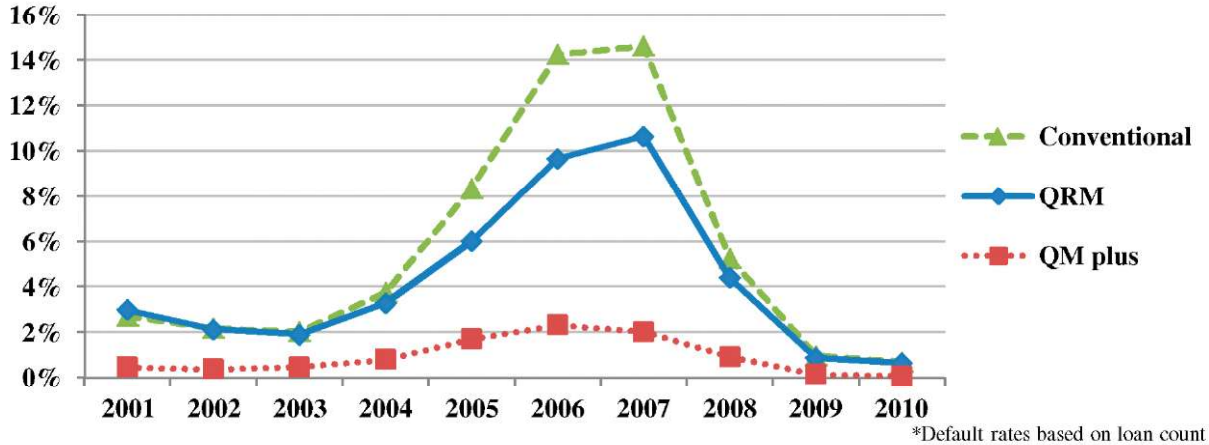
The graph below sets out cumulative default rates for loans that would satisfy the definitions of QRM and QM plus. To provide a perspective on the performance of these loans compared to a broader mortgage market, we have also included default rates for all conventional loans.[8] As expected, the default rate for QM plus loans is significantly lower than for QRMs. However, as further discussed below, the better performance comes at the cost of a very narrow market reach that excludes many creditworthy borrowers.

As seen in the data below, the performance of QRM loans largely tracks that of the traditional conventional market. Before the onset of the housing bubble (*i.e.*, 2001-2004) and again in the years following the housing crisis (2009 forward), the majority of residential mortgage

[8] Conventional loans include all mortgage loans other than those insured or guaranteed by a Federal agency.

loans had characteristics similar to QM/QRM loans. The higher default rates experienced beginning in 2004 and through 2008 demonstrate the impact of high risk products on the housing market – loans with non-traditional (exotic) features, low or no documentation, layered risk and lax credit underwriting not only perform poorly, their poor performance can put downward pressure on house prices and "contaminate" the entire market. Adopting a QRM definition that excludes the riskiest products but that still has broad market reach limits the possibility of market contamination in the future, benefitting all of housing (and, indeed, the overall economy).

Loan Default Rates* by Loan Type
2001-2010 Loan Originations



*Default rates based on loan count
Source: CoreLogic Database

Detailed data reflected in the graph are set forth in the table below:

Loan Default Rates* by Loan Type

2001-2010 Loan Originations

	Conventional	QRM	QM plus
2001	2.7%	3.0%	0.5%
2002	2.2%	2.1%	0.4%
2003	2.0%	1.9%	0.5%
2004	3.8%	3.3%	0.8%
2005	8.4%	6.0%	1.7%
2006	14.3%	9.7%	2.3%
2007	14.6%	10.7%	2.0%
2008	5.3%	4.4%	0.9%
2009	1.0%	0.9%	0.1%
2010	0.7%	0.7%	0.1%
2001-2010	5.7%	3.8%	0.7%

*Default rates based on loan count
Source: CoreLogic Database

QRM and QM plus market reach.

Genworth believes that the Agencies are rightfully concerned about the impact of imposing additional constraints on mortgage credit availability, especially for traditionally underserved markets.[9] As seen in the graph below, an analysis of market share shows that QRMs will reach a significant portion of potential homebuyers, ensuring that responsible borrowers have access to prudent and sustainable mortgage financing at the best available terms.[10] In contrast, QM plus mortgages will be out of the reach of many of those borrowers. First time and low to moderate income homeowners and members of underserved communities will be especially hard hit by a narrow QM plus definition. Housing policy experts generally agree that adopting a narrowly defined QRM would adversely impact borrowers and the housing market.

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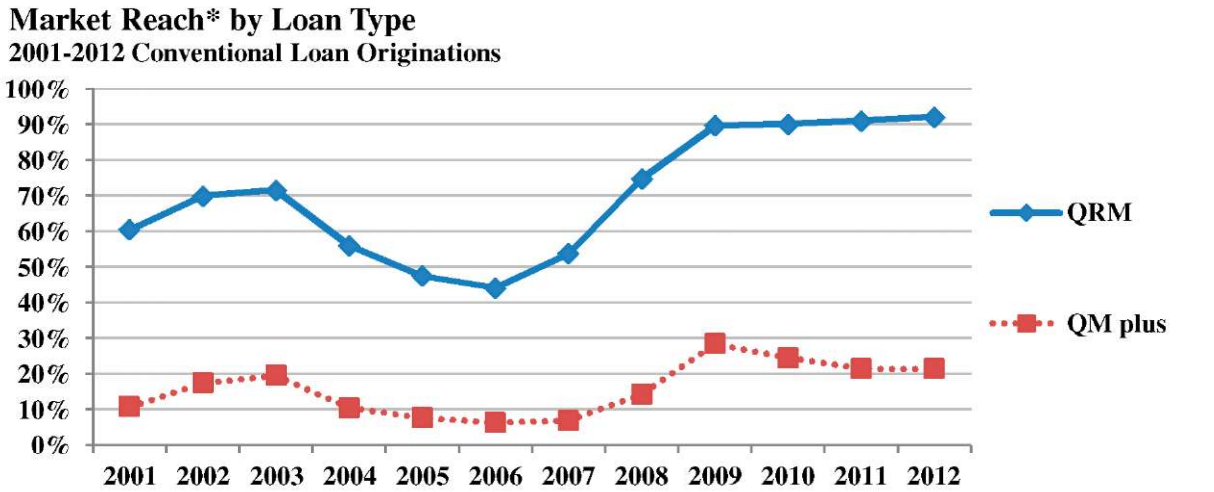
[9] See Credit Risk Retention; Proposed Rule, 78 FR 57991 (September 20, 2013) at http://www.gpo.gov/fdsys/pkg/FR-2013-09-20/pdf/2013-21677.pdf ("The agencies are … concerned about the prospect of imposing further constraints on mortgage credit availability at this time, especially as such constrains might disproportionately affect groups that have historically been disadvantaged in the mortgage market, such as lower-income, minority, or first-time homebuyers.")

[10] Based on an analysis of approximately 59 million residential mortgage loans with an aggregate principal amount of approximately $12 trillion originated from 2001 – 2012 and contained in the CoreLogic Database. The market reach data is included in Exhibit A – Analysis of CoreLogic Loan Level Market Analytics Data.

Given the importance of housing to the U.S. economy, the best approach is a broad QRM that includes as many prudently underwritten, sustainable loans as possible.

To assess market reach for QRM and QM plus mortgages, Genworth calculated the percent of 2001 – 2012 conventional mortgage market originations (as reflected in the CoreLogic Database) that would have satisfied those definitions. As seen in the graph below, QRM mortgages would reach approximately 90 percent of today's borrowers. In contrast, QM plus mortgages would reach only 20 percent of today's market.



*Market reach based on loan count
Source: CoreLogic Database

Five years after the onset of the housing crisis in 2008, mortgage credit remains extremely tight and access to homeownership is still being denied to many creditworthy borrowers. For example, the average FICO score for loans purchased by Fannie Mae and Freddie Mac remains above 750, and the average loan to value ratio is still less than 75 percent.[11] Economists, housing policy experts, bank regulators and Federal Reserve Chair Bernanke are among those who have raised concerns about overly tight lending standards.[12]

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[11] Federal Housing Finance Agency, "FHFA Quarterly Performance Report of the Housing GSEs, Second Quarter 2013", available at http://www.fhfa.gov/webfiles/25515/2Q2013QuarterlyPerformanceReport091913.pdf.

[12] The need for flexible underwriting standards and the importance of ensuring that underserved borrowers have access to prudent, affordable mortgages was highlighted during Senate debate on a proposed amendment to Dodd Frank that would have mandated a five percent down payment. Then Senate Banking Chairman Chris Dodd stated that "the [five percent down payment requirement] puts in government-dictated, hard-wired underwriting standards that would have very serious consequences … for first-time home buyers, minority home buyers and others who are seeking to attain the American dream of home ownership … [I]t does this at a time … that the housing markets are just starting to recover, potentially putting that recovery at risk." 156 Cong. Rec. S3518 (May 11, 2010).

The very narrow QM plus option discussed in the new proposal would permanently imbed an extremely tight – practically riskless – credit standard into mortgage finance regulation. This will not only slow the recovery of today's housing markets; it will act as a perpetual constraint on housing markets. On the other hand, the broader proposed QRM definition will give many creditworthy borrowers access to sound, safe mortgages on the best available terms.

QM plus would not only cover a very small portion of the market, it would have an especially harsh effect on first time homebuyers and low to moderate income borrowers; groups that historically have been disadvantaged in the mortgage market. For example, in 2012, while 92 percent of loans made in "low to moderate income zip codes" would have satisfied the QRM definition, only 11 percent of those loans would have satisfied the QM plus definition.[13] Similarly, nearly 95 percent of first time homebuyers with loans purchased by Fannie Mae or Freddie Mac between October 2012 and September 2013 received loans that would have satisfied the QRM definition, but only six percent of those homebuyers received loans that would have satisfied the QM plus definition.[14]

Implications of aligning QRM and QM.

While Genworth supports the Agencies' approach of aligning QRM with the QM definition, we do believe it amplifies the importance of ongoing coordination among the various federal regulators that have responsibility for aspects of the housing finance market; in particular, federal bank regulators, HUD, CFPB and FHFA (the GSEs' regulator). Changes to the definition of QM, or the expiration of any of the categories included in the temporary QM definition (or changes to credit policy or loan limits for any loans included in the temporary definition) could have an immediate, material impact on the market for, and performance of, QRMs.

The Agencies should also be mindful of the potential for the QRM definition to shift market share to federally insured or guaranteed mortgages. Loans with FHA insurance are exempt from the risk retention requirements, and the GSE guarantee is recognized as a permitted form of risk retention. Accordingly, changes to the QRM definition (either directly or as a consequence of changes to the QM rule) that cause the QRM market share to shrink could cause a shift in market share away from private markets and toward federally insured or

[13] Based on 2012 loan originations in the CoreLogic Database. Low to moderate income includes incomes up to 80% of area median family income. "Low to moderate income zip codes" are zip codes in which median incomes are at or below 80% of incomes in their respective "core based statistical area" as published by the U.S. Census Bureau.

[14] Based on loan level data included in the eMBS (www.embs.com) database of MBS guaranteed by Fannie Mae and Freddie Mac and issued since July 2012.

guaranteed mortgages. The result would be less borrower choice (and possibly higher costs for borrowers), and more housing risk assumed by taxpayers.[15]

For these reasons, we urge the Agencies to continue to coordinate and to engage with the CFPB to ensure that future rulemakings do not have unintended, adverse market consequences.

Responses to numbered questions.

To avoid repetition, we have grouped related questions and responses.

89(a). Is the agencies' approach to considering the QRM definition, as described above, appropriate? 89(b). Why or why not? 89(c). What other factors or circumstances should the agencies take into consideration in defining QRM?

Genworth was among the many commentators that raised serious concerns about the market impact of an overly narrow approach to exempting prudently underwritten mortgage loans from the risk retention requirements under Dodd-Frank, and we are pleased that the new proposal contemplates a broader definition of QRM.[16] As we will further discuss below, a QRM that aligns with the Qualified Mortgage ("QM") definition promulgated by the Consumer Financial Protection Bureau ("CFPB") will have a broad market reach that is likely to include the important cohorts of first time and low to moderate income homebuyers and homebuyers who are members of underserved communities.[17] When underwritten and originated with terms and features that are consistent with sound risk management practices and policies, QRMs should perform in a manner that will promote a stable housing finance system across economic cycles.

Market Reach

Genworth believes that the Agencies are rightfully concerned about the impact of imposing additional constraints on mortgage credit availability, especially for traditionally underserved

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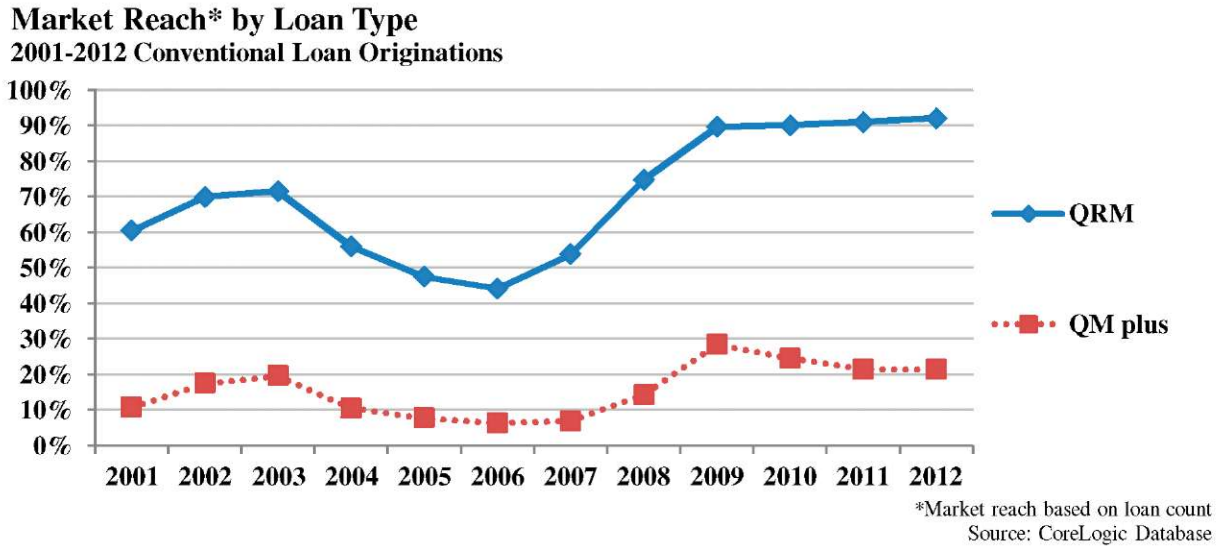
[15] The borrower cost for a low down payment loan with FHA insurance can exceed the cost for a comparable loan with private mortgage insurance. For example, a borrower with a 680 FICO score purchasing a $250,000 home with a 10 percent down payment would pay approximately $3,800 more for a loan with FHA insurance than for a comparable loan with private mortgage insurance (based on prevailing interest rate and loan level delivery fees) if that loan remains outstanding for six years. Although the Agencies are not proposing to require mortgage insurance on low down payment QRMs, investors often rely on private MI to mitigate loss on high LTV loans. Indeed, the GSE charters require credit enhancement (generally, private mortgage insurance) on those loans.

[16] Genworth's comment letter on the original credit risk retention proposal, submitted on July 28, 2011, is available at http://www.fdic.gov/regulations/laws/federal/2011/11c147ad74.pdf.

[17] See "Ability-to-Repay and Qualified Mortgage Standards Under the Truth in Lending Act (Regulation Z); Final Rule." Federal Register 78:113 (June 12, 2013), pp. 35430 – 35506. Available at http://www.gpo.gov/fdsys/pkg/FR-2013-06-12/pdf/2013-13173.pdf.

markets.[18] As seen in the graph below, an analysis of market share shows that QRMs will reach a significant portion of potential homebuyers, ensuring that responsible borrowers have access to prudent and sustainable mortgage financing at the best available terms.[19] In contrast, QM plus mortgages will be out of the reach of many of those borrowers. First time and low to moderate income homeowners and members of underserved communities will be especially hard hit by a narrow QM plus definition. Housing policy experts generally agree that adopting a narrowly defined QRM would impact borrowers and the housing market. Given the importance of housing to the U.S. economy, the best approach is a broad QRM that includes as many prudently underwritten, sustainable loans as possible.

To assess market reach for QRM and QM plus mortgages, Genworth calculated the percent of 2001 – 2012 conventional mortgage market originations (as reflected in the CoreLogic Database) that would have satisfied those definitions. As seen in the graph below, QRM mortgages would reach approximately 90 percent of today's borrowers. In contrast, QM plus mortgages would reach only 20 percent of today's market.



[18] See Credit Risk Retention; Proposed Rule, 78 FR 57991 (September 20, 2013) at http://www.gpo.gov/fdsys/pkg/FR-2013-09-20/pdf/2013-21677.pdf ("The agencies are … concerned about the prospect of imposing further constraints on mortgage credit availability at this time, especially as such constrains might disproportionately affect groups that have historically been disadvantaged in the mortgage market, such as lower-income, minority, or first-time homebuyers.")

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Improved Performance Over The Cycle

We note that the broad approach taken by the Agencies relies on market participants (especially originators and investors) to adhere to prudent credit underwriting standards, especially in the case of the riskier loans that will fall within the QRM definition (such as loans with higher debt to income ratios ("DTIs") and higher combined loan to value ratios ("CLTVs")).[22] Still, Genworth believes that this approach strikes a reasonable balance between the need for regulatory prescription and the benefits of permitting market participants to have flexibility regarding the assessment and allocation of risk.

As seen in the data below, the performance of QRM loans largely tracks that of the traditional conventional market. Before the onset of the housing bubble (*i.e.*, 2001-2004) and again in the years following the housing crisis (2009 forward), the majority of residential mortgage loans had characteristics similar to QM/QRM loans. The higher default rates experienced beginning in 2004 and through 2008 demonstrate the impact of high risk products on the housing market – loans with non-traditional (exotic) features, low or no documentation, layered risk and lax credit underwriting not only perform poorly, their poor performance can put downward pressure on house prices and "contaminate" the entire market. Adopting a QRM definition that excludes the riskiest products but that still has broad market reach limits the possibility of market contamination in the future, benefitting all of housing (and, indeed, the overall economy).

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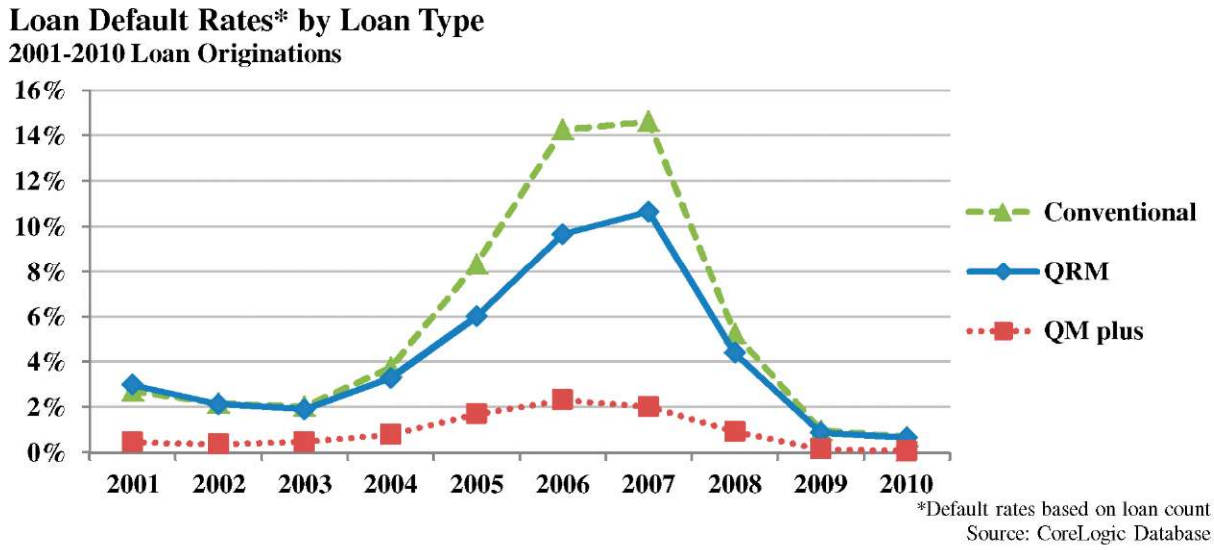

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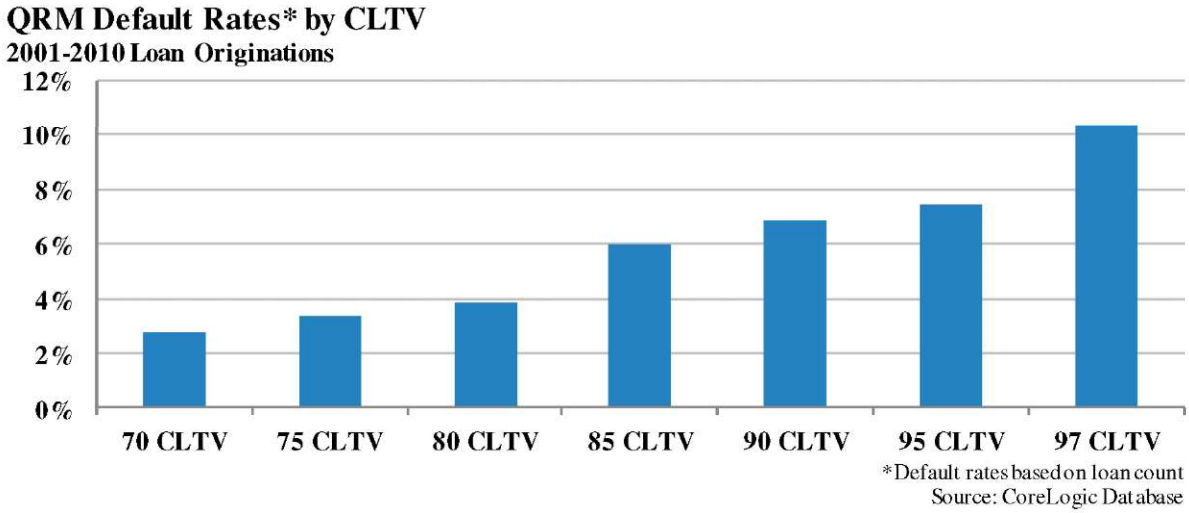
[23] See Gallagher Dissenting Statement at http://www.sec.gov/News/PublicStmt/Detail/PublicStmt/1370539792762 ("The re-proposal completely abandons the definition of QRM set forth by the agencies in the original proposal and instead adopts the deeply flawed definition of "qualified mortgage" (QM) set forth by the Consumer Financial Protection Bureau (CFPB) earlier this year.").



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[24] SEC analysis cited in the new proposal concluded that, "PMI is not associated with a significantly lower SDQ rate." Genworth acknowledges the challenges associated with analysis of mortgage data, including inconsistent data/variable availability and disparate and fragmented databases. The completeness of the data set, the assumptions used, the techniques/methodologies employed, the level of segmentation, and a host of other variables can and do alter outcomes. Genworth has reviewed the scope, depth, and rigor of the analyses in its 2011 QRM Comment Letter and we stand behind that work.

[25] QM plus loans are subject to criteria that do not apply to QRMs: LTV ratio is capped at 70 percent; junior liens are not permitted for purchase loans, the mortgage must be secured by a primary residence and borrower credit history must meet specified standards.

result in a QRM that still had broad market reach but that also addressed concerns about higher losses on lower down payment loans.

Implications of aligning QRM and QM.

While Genworth supports the Agencies' approach of aligning QRM with the QM definition, we do believe it amplifies the importance of ongoing coordination among the various federal regulators that have responsibility for aspects of the housing finance market; in particular, federal bank regulators, HUD, CFPB and FHFA (the GSEs' regulator). Changes to the definition of QM, or the expiration of any of the categories included in the temporary QM definition (or changes to credit policy or loan limits for any loans included in the temporary definition) could have an immediate, material impact on the market for, and performance of, QRMs.

The Agencies should also be mindful of the potential for the QRM definition to shift market share to federally insured or guaranteed mortgages. Loans with FHA insurance are exempt from the risk retention requirements, and the GSE guarantee is recognized as a permitted form of risk retention. Accordingly, changes to the QRM definition (either directly or as a consequence of changes to the QM rule) that cause the QRM market share to shrink could cause a shift in market share away from private markets and toward federally insured or guaranteed mortgages. The result would be less borrower choice (and possibly higher costs for borrowers), and more housing risk assumed by taxpayers.[26]

The agencies invite comment on all aspects of the proposal to equate QRM with QM. In particular, 90. Does the proposal reasonably balance the goals of helping ensure high quality underwriting and appropriate risk management, on the one hand, and the public interest in continuing access to credit by creditworthy borrowers, on the other?

Genworth was among the many commentators that raised serious concerns about the market impact of an overly narrow approach to exempting prudently underwritten mortgage loans from the risk retention requirements under Dodd-Frank, and we are pleased that the new proposal contemplates a broader definition of QRM.[27] As we will further discuss below, a QRM that aligns with the Qualified Mortgage ("QM") definition promulgated by the

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[26] The borrower cost for a low down payment loan with FHA insurance can exceed the cost for a comparable loan with private mortgage insurance. For example, a borrower with a 680 FICO score purchasing a $250,000 home with a 10 percent down payment would pay approximately $3,800 more for a loan with FHA insurance than for a comparable loan with private mortgage insurance (based on prevailing interest rate and loan level delivery fees) if that loan remains outstanding for six years. Although the Agencies are not proposing to require mortgage insurance on low down payment QRMs, investors often rely on private MI to mitigate loss on high LTV loans. Indeed, the GSE charters require credit enhancement (generally, private mortgage insurance) on those loans.

[27] Genworth's comment letter on the original credit risk retention proposal, submitted on July 28, 2011, is available at http://www.fdic.gov/regulations/laws/federal/2011/11c147ad74.pdf.

Consumer Financial Protection Bureau ("CFPB") will have a broad market reach that is likely to include the important cohorts of first time and low to moderate income homebuyers and homebuyers who are members of underserved communities.[28] When underwritten and originated with terms and features that are consistent with sound risk management practices and policies, QRMs should perform in a manner that will promote a stable housing finance system across economic cycles. We note that the broad approach taken by the Agencies relies on market participants (especially originators and investors) to adhere to prudent credit underwriting standards, especially in the case of the riskier loans that will fall within the QRM definition (such as loans with higher debt to income ratios ("DTIs") and higher combined loan to value ratios ("CLTVs")).[29] Still, Genworth believes that this approach strikes a reasonable balance between the need for regulatory prescription and the benefits of permitting market participants to have flexibility regarding the assessment and allocation of risk.

In order to evaluate the performance of QRM and QM plus loans and confirm that the new proposal strikes an appropriate balance between performance and market access, Genworth undertook a loan level analysis of approximately 53 million residential mortgage loans with an aggregate principal amount of approximately $11 trillion originated from 2001 – 2010 and contained in the CoreLogic Loan Level Market Analytics Database ("CoreLogic Database").[30] For ease of reference, the table below summarizes the key features of QRM and QM plus loans.

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[28] See "Ability-to-Repay and Qualified Mortgage Standards Under the Truth in Lending Act (Regulation Z); Final Rule." Federal Register 78:113 (June 12, 2013), pp. 35430 – 35506. Available at http://www.gpo.gov/fdsys/pkg/FR-2013-06-12/pdf/2013-13173.pdf.

[29] In this comment letter, the term "Agencies" refers to the Federal Reserve, FDIC, HUD, SEC, FHFA and OCC.

[30] The performance data is included in Exhibit A - Analysis of CoreLogic Loan Level Market Analytics Data.

	QRM	QM plus
Back DTI	43%	43%
Temporary DTI Exception	Eligible for purchase by GSE, or insurance/guarantee by FHA, VA, USDA*	Eligible for insurance/guarantee by FHA, VA, USDA*
ARM	Underwrite to maximum rate in 1st 5 yrs	Underwrite to maximum rate in 1st 5 yrs
Small Creditor DTI Exception	No DTI cap if loan held in portfolio 3 years	N/A
Purchase CLTV/Piggyback	NA / Yes	70% / No
Refinance CLTV/Junior Lien	NA / Yes	70% / Yes
Negative Amortization	No	No
Interest Only	No	No
Balloons	Small creditor exception	No
Points and Fees	3% cap on loans >= $100,000	3% cap on loans >= $100,000
Prepay Penalty - Fixed Rate	Maximum penalty included in points and fees	Maximum penalty included in points and fees
Prepay Penalty - ARM	Prohibited	Prohibited
Credit History	N/A	690**
Max Term	30yr	30yr
Property Type	Any dwelling	1 to 4 family
Occupancy	Primary/Second Home/Investor	Primary
Documentation	Full	Full

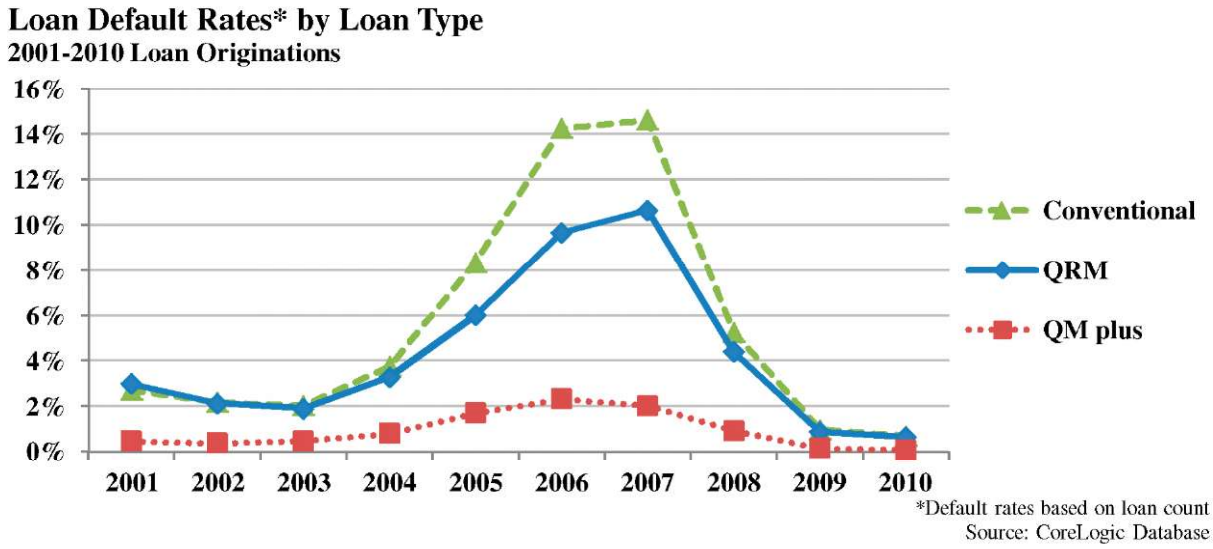
*QRMs include loans permitted under the CFPB's "temporary QM" definition: loans eligible to be purchased by Fannie Mae or Freddie Mac and loans eligible to be insured or guaranteed by FHA, VA or USDA. The temporary QM proviso for GSE loans lasts for the lesser of seven years and so long as they are in conservatorship, and for FHA, VA and USDA loans it lasts for the lesser of seven years and until the government agency implements its own rule. QM plus does not include the temporary QM proviso for loans eligible to be purchased by Fannie Mae or Freddie Mac.
** 690 FICO score is used as a proxy for the credit history included in the new proposal.

The graph below sets out cumulative default rates for loans that would satisfy the definitions of QRM and QM plus. To provide a perspective on the performance of these loans compared to a broader mortgage market, we have also included default rates for all conventional loans.[31] As expected, the default rate for QM plus loans is significantly lower than for QRMs. However, as further discussed below, the better performance comes at the cost of a very narrow market reach that excludes many creditworthy borrowers.

As seen in the data below, the performance of QRM loans largely tracks that of the traditional conventional market. Before the onset of the housing bubble (*i.e.*, 2001-2004) and again in the years following the housing crisis (2009 forward), the majority of residential mortgage

[31] Conventional loans include all mortgage loans other than those insured or guaranteed by a Federal agency.

loans had characteristics similar to QM/QRM loans. The higher default rates experienced beginning in 2004 and through 2008 demonstrate the impact of high risk products on the housing market – loans with non-traditional (exotic) features, low or no documentation, layered risk and lax credit underwriting not only perform poorly, their poor performance can put downward pressure on house prices and "contaminate" the entire market. Adopting a QRM definition that excludes the riskiest products but that still has broad market reach limits the possibility of market contamination in the future, benefitting all of housing (and, indeed, the overall economy).



91. Will the proposal, if adopted, likely have a significant effect on the availability of credit? Please provide data supporting the proffered view.

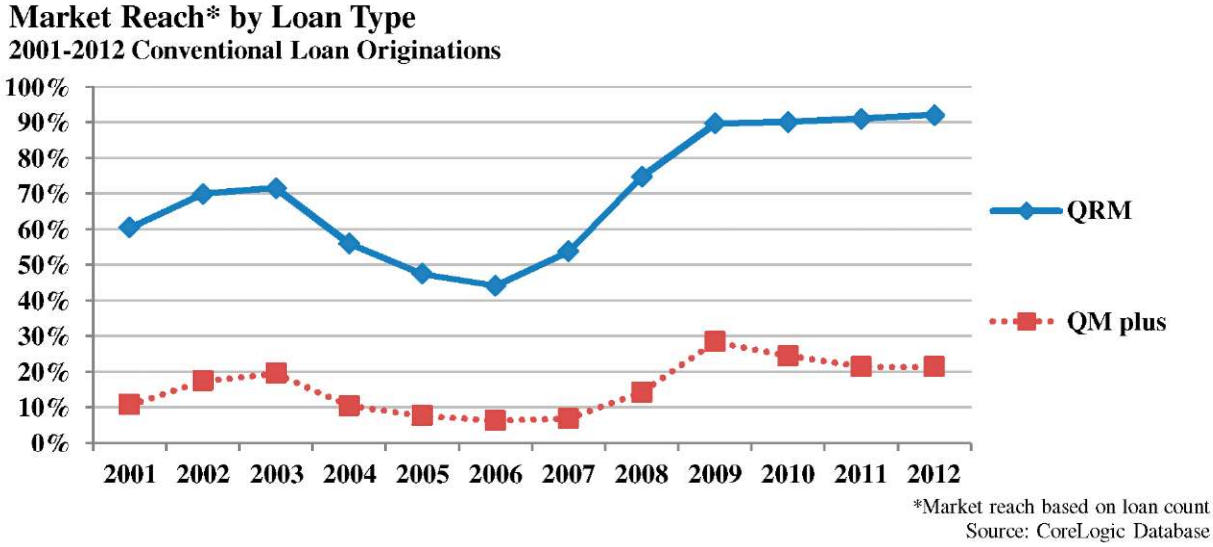
QRM and QM plus market reach.

Genworth believes that the Agencies are rightfully concerned about the impact of imposing additional constraints on mortgage credit availability, especially for traditionally underserved markets.[32] As seen in the graph below, an analysis of market share shows that QRMs will reach a significant portion of potential homebuyers, ensuring that responsible borrowers have

[32] See Credit Risk Retention; Proposed Rule, 78 FR 57991 (September 20, 2013) at http://www.gpo.gov/fdsys/pkg/FR-2013-09-20/pdf/2013-21677.pdf ("The agencies are … concerned about the prospect of imposing further constraints on mortgage credit availability at this time, especially as such constrains might disproportionately affect groups that have historically been disadvantaged in the mortgage market, such as lower-income, minority, or first-time homebuyers.")

access to prudent and sustainable mortgage financing at the best available terms.[33] In contrast, QM plus mortgages will be out of the reach of many of those borrowers. First time and low to moderate income homeowners and members of underserved communities will be especially hard hit by a narrow QM plus definition. Housing policy experts generally agree that adopting a narrowly defined QRM would impact borrowers and the housing market. Given the importance of housing to the U.S. economy, the best approach is a broad QRM that includes as many prudently underwritten, sustainable loans as possible.

To assess market reach for QRM and QM plus mortgages, Genworth calculated the percent of 2001 – 2012 conventional mortgage market originations (as reflected in the CoreLogic Database) that would have satisfied those definitions. As seen in the graph below, QRM mortgages would reach approximately 90 percent of today's borrowers. In contrast, QM plus mortgages would reach only 20 percent of today's market.



Five years after the onset of the housing crisis in 2008, mortgage credit remains extremely tight and access to homeownership is still being denied to many creditworthy borrowers. For example, the average FICO score for loans purchased by Fannie Mae and Freddie Mac remains above 750, and the average loan to value ratio is still less than 75 percent.[34]

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[33] Based on an analysis of approximately 59 million residential mortgage loans with an aggregate principal amount of approximately $12 trillion originated from 2001 – 2012 and contained in the CoreLogic Database. The market reach data is included in Exhibit A – Analysis of CoreLogic Loan Level Market Analytics Data.
[34] Federal Housing Finance Agency, "FHFA Quarterly Performance Report of the Housing GSEs, Second Quarter 2013", available at http://www.fhfa.gov/webfiles/25515/2Q2013QuarterlyPerformanceReport091913.pdf.

Economists, housing policy experts, bank regulators and Federal Reserve Chair Bernanke are among those who have raised concerns about overly tight lending standards.[35]

The very narrow QM plus option discussed in the new proposal would permanently imbed an extremely tight – practically riskless – credit standard into mortgage finance regulation. This will not only slow the recovery of today's housing markets; it will act as a perpetual constraint on housing markets. On the other hand, the broader proposed QRM definition will give many creditworthy borrowers access sound, safe mortgages on the best available terms.

QM plus would not only cover a very small portion of the market, it would have an especially harsh effect on first time homebuyers and low to moderate income borrowers; groups that historically have been disadvantaged in the mortgage market. For example, in 2012, while 92 percent of loans made in "low to moderate income zip codes" would have satisfied the QRM definition, only 11 percent of those loans would have satisfied the QM plus definition.[36] Similarly, nearly 95 percent of first time homebuyers with loans purchased by Fannie Mae or Freddie Mac between October 2012 and September 2013 received loans that would have satisfied the QRM definition, but only six percent of those homebuyers received loans that would have satisfied the QM plus definition.[37]

92(a). Is the proposed scope of the definition of QRM, which would include loans secured by subordinate liens, appropriate? 92(b). Why or why not? 92(c). To what extent do concerns about the availability and cost of credit affect your answer?

Including loans secured by subordinate liens, particularly simultaneous second lien mortgages (piggyback seconds) introduces a significant layer of risk into securitizations of QRM loans. In the years leading up to the housing crisis, piggyback seconds were often used as a way to avoid the credit enhancement requirement contained in Fannie Mae and Freddie Mac's statutory charters. A loan with a CLTV above 80 percent was originated as two separate loans: a first lien mortgage with an LTV not greater than 80 percent and a simultaneously originated second lien for an amount that brought the CLTV to ninety percent or greater. The

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[35] The need for flexible underwriting standards and the importance of ensuring that underserved borrowers have access to prudent, affordable mortgages was highlighted during Senate debate on a proposed amendment to Dodd Frank that would have mandated a five percent down payment. Then Senate Banking Chairman Chris Dodd stated that "the [five percent down payment requirement] puts in government-dictated, hard-wired underwriting standards that would have very serious consequences … for first-time home buyers, minority home buyers and others who are seeking to attain the American dream of home ownership … [I]t does this at a time … that the housing markets are just starting to recover, potentially putting that recovery at risk." 156 Cong. Rec. S3518 (May 11, 2010).

[36] Based on 2012 loan originations in the CoreLogic Database. Low to moderate income includes incomes up to 80% of area median family income. "Low to moderate income zip codes" are zip codes in which median incomes are at or below 80% of incomes in their respective "core based statistical area" as published by the U.S. Census Bureau.

[37] Based on loan level data included in the eMBS (www.embs.com) database of MBS guaranteed by Fannie Mae and Freddie Mac and issued since July 2012.

first lien could then be sold to a GSE or other investor and characterized as an eighty percent LTV loan. The second lien was either sold in a "private label" (non-GSE) securitization or held in portfolio. Because of the disconnect between the first and second lien, investors in first lien mortgages with piggyback seconds may be unaware of the actual credit risk on the combined financing transaction. The first lien is underwritten on the false premise that the LTV is only 80 percent, when in fact the actual CLTV is far higher due to the amount of the simultaneous second.

In contrast, mortgage insurers' credit policy is based on the total CLTV of the loan, which results in a more accurate evaluation of the credit risk. A mortgage insurer's entire business model depends on accurately assessing the credit quality of a mortgage loan. Mortgage insurers are obligated to pay claims upon foreclosure, so it is in our interest to facilitate a loan modification or other workout that avoids foreclosure. The interests of mortgage insurers are thus directly aligned with those of borrowers and investors, all of whom benefit when foreclosure is avoided. This is a significant difference between loans insured with private mortgage insurance and piggyback seconds. If a second lien is under water and the lien holder is still carrying it at full value, a workout of the first lien could compel the write down of the second lien. In that case, the second lien holder may be motivated to try to block a loan workout – an outcome that is adverse to the interest of the first lien investor (and the borrower). Many second lien holders are servicers of the first lien, which positions them to block (or slow) efforts to resolve troubled loans.[38] Second lien holders have been blamed for holding up short sales and complicating efforts to resolve defaulted loans.[39] Including loans with piggyback seconds in the definition of QRM potentially increases the risks to investors in QRM securitizations. The difficulty in identifying loans with piggyback seconds exacerbates the risk, because the investor may not be able to make a fully informed investment decision. For all these reasons, we suggest the Agencies reconsider the inclusion of loans with piggybacks in the definition of QRM.

96(a). As documented in the initial proposal, academic research and the agencies' own analyses show that credit history and loan-to-value ratio are key determinants of mortgage

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[38] See *National Mortgaging Servicing Standards and Conflicts of Interest: Hearing before the Subcommittee. on Housing, Transportation, and Community Development of the Senate Committee on Banking, Housing, and Urban Affairs,* 112th Congress, May 12, 2011 (Testimony of Laurie Goodman, Senior Managing Director, Amherst Securities Group). The first conflict cited by Goodman is the fact that "first lien servicers have significant ownership interests in 2nd liens and often have no ownership interest in the corresponding first lien mortgage loans that are made to the same borrower and secured by the same property." Available at http://banking.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=484c5b2b-6924-459f-898e-3ae075feeb15. Former Rep. Brad Miller, D-NC has similarly acknowledged that "[t]here is a conflict of interest to servicing securitized first liens while holding the second." Alex Ulam, *Why Second-Lien Loans Remain A Worry*, American Banker, May 2, May 2011.

[39] See, e.g., *Legacy Issues Causing Headaches in Non-Agency Markets, Experts Say – Can Regulators Fix Them?* Inside MBS & ABS, June 24, 2011 and Agarwal, Sumit, etal, "Second Liens and the Holdup Problem in First-lien Mortgage Renegotiation", Sept. 2012. Available at http://www.fdic.gov/news/conferences/2012-09-2728/Second%20Liens%20and%20the%20Hold%20Up%20Problem.pdf.

default, along with the product type factors that are included in the QM definition. If QRM criteria do not address credit history and loan-to-value, would securitizers packaging QRM-eligible mortgages into RMBS have any financial incentive to be concerned with these factors in selecting mortgages for inclusion in the RMBS pool?

Credit history and loan to value ratio (and CLTV) absolutely have an impact on the likelihood of default, and in the case of LTV, also on the severity of loss upon default. Investors acknowledge this risk and, as a result, seek greater credit enhancement for higher risk loans.

Private mortgage insurance is a proven, reliable and transparent credit enhancement for lower down payment loans. The significant benefits of mortgage insurance have been recognized for decades by federal bank regulators through their implementation of the first Basel accord (recently reaffirmed when those regulators implemented Basel 3 in a final rulemaking in July 2013).[40] Congress has also long recognized these benefits through the statutory requirement in Fannie Mae and Freddie Mac's charters. FHFA (the GSEs' regulator) includes increased reliance on private MI as an element of its strategic plan for the GSEs, and most proposals for housing finance reform call for a significant role for private MI. The value of mortgage insurance also has been recognized globally, evidenced, for example, by the Canadian and Australian government and private MI programs. More recently, the international Financial Stability Board ("FSB") cited the "prudent use of mortgage insurance" as one of five recommended practices for mortgage lending, and U.S. bank regulators reaffirmed the treatment of private mortgage insurance as a credit risk mitigant for purposes of bank capital rules.[41] Also, in August 2013, the Joint Forum issued a final report on mortgage insurance that endorsed a set of recommendations for global mortgage insurance which echo the findings of the FSB and reflect many principles already imbedded in the U.S. mortgage insurance model.[42]

The value of mortgage insurance as credit loss mitigation will be further strengthened as the industry continues to implement changes to master policies to clarify the terms of coverage, works with its state regulators and federal counterparties to introduce new, transparent modeling to measure claims paying adequacy and advances other initiatives, including working with Fannie Mae and Freddie Mac to implement new MI eligibility guidelines (the

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[40] "Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule (Final Rule)." Federal Register 78:198 (October 11, 2013), pp. 62018 – 62291. Available at http://www.gpo.gov/fdsys/pkg/FR-2013-10-11/pdf/2013-21653.pdf.

[41] "FSB Principles for Sound Residential Mortgage Underwriting Practices", Financial Stability Board, April 2012. The five practices recommended in the FSB report are: (1) effective verification of income and other financial information, (2) reasonable debt service coverage, (3) appropriate LTVs, (4) effective collateral management, and (5) prudent use of mortgage insurance.

[42] See The Joint Forum, *Mortgage Insurance: market structure, underwriting cycle and policy implications*, August, 2013. Available at https://www.bis.org/publ/joint33.pdf.

GSEs have said publicly that they are working on drafting updated guidelines). We refer the Agencies to Genworth's comment letter on the initial proposal for an in depth discussion of the mortgage insurance capital and reserving requirements, regulation, and the impact of MI on frequency and severity of default, and to Genworth's comment letter on the Federal bank regulators' proposal to implement Basel 3 for a discussion of the industry work to strengthen the MI business model.[43]

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Genworth appreciates the opportunity to comment on the new proposal. Questions or requests for further information may be directed to the undersigned or to Carol Bouchner (carol.bouchner@genworth.com) or Duane Duncan (duane.duncan@genworth.com).

Very truly yours,

Rohit Gupta
President & CEO
Mortgage Insurance – U.S.

[43] Genworth's comment letter on Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements, submitted on October 22, 2012, is available at http://www.regulations.gov/contentStreamer?objectId=090000648114bbf4&disposition=attachment&contentType=pdf.
Genworth's comment letter on the original credit risk retention proposal, submitted on July 28, 2011, is available at http://www.fdic.gov/regulations/laws/federal/2011/11c147ad74.pdf.

Exhibit A

Exhibit A – Analysis of CoreLogic Loan Level Market Analytics Data

Exhibit A – Analysis of CoreLogic Loan Level Market Analytics Data

Purpose:
Genworth undertook summary level analysis of the CoreLogic Loan Level Market Analytics Database ("CoreLogic Database") to determine the share of the market covered by QRM / QM plus definitions and find the associated default rates. The purpose of this analysis is to help inform the QRM discussion with data from a broad servicing database. Capitalized terms used in this Exhibit A and not defined herein have the meaning assigned to such terms in the accompanying Genworth comment letter.

Database:
The CoreLogic Database is derived from loan servicer data and includes loan-level characteristic data and historical payment history on approximately 170 million loans. According to CoreLogic, the CoreLogic Database covers approximately 65% of active first lien residential mortgage loans. Further information regarding CoreLogic can be found at www.corelogic.com.

QRM Criteria:
To conduct the analysis, Genworth first identified loans in the CoreLogic Database that met the QRM and QM plus definitions based on the following loan characteristics:

- Back-end DTI
- LTV
- CLTV
- Occupancy
- Presence of Piggyback Second Lien
- Loan Purpose
- Negative Amortization Indicator
- Interest Only Indicator
- Balloon Indicator
- Prepay Penalty Indicator
- Loan Term
- Occupancy Status
- Loan Documentation Level
- Investor
- Borrower Credit Score

Detailed Explanation of Loan Characteristics:

Conventional Loans: The analysis looks only at conventional loans. A conventional loan is a mortgage loan not insured or guaranteed by a federal agency (FHA, VA, etc.). Conventional loans include loans guaranteed by Fannie Mae or Freddie Mac, held in portfolio, or securitized in private label securities.

Credit Attributes: The CoreLogic Database does not include data on individual credit events such as whether a borrower has been delinquent on scheduled indebtedness. To conduct the analysis on QM plus, Genworth used a FICO score of 690 at origination as a proxy for the credit factors proposed by the Agencies. This is consistent with the analysis the Agencies conducted in connection with QM plus.

Debt-to-Income Ratios: Back-end DTIs were not available for all loans in the CoreLogic Database. Loans in the CoreLogic Database that otherwise met the eligibility criteria but that did not have DTI information were included in the analysis.

Loans with Piggyback Seconds: The CoreLogic Database includes the LTV and the CLTV at time of origination. Loans with piggyback seconds were identified as with a CLTV greater than the LTV.

Points and Fees: The CoreLogic Database does not include information on points and fees. Genworth estimated the impact of the proposed 3% cap on points and fees on market reach using data provided by a national mortgage lender.

Maximum Payment First Five Years: QM restricts the maximum payment for adjustable rate loans during the first five years. The CoreLogic Database does not include data to permit calculation of that maximum payment, so to conduct our analysis; Genworth assumes that ARM loans with initial DTIs at or below 43% would remain at or below 43%.

Summary Table of Key Features of QRM and QM plus

	QRM	QM plus
Back DTI	43%	43%
Temporary DTI Exception	Eligible for purchase by GSE, or insurance/guarantee by FHA, VA, USDA*	Eligible for insurance/guarantee by FHA, VA, USDA*
ARM	Underwrite to maximum rate in 1st 5 yrs	Underwrite to maximum rate in 1st 5 yrs
Small Creditor DTI Exception	No DTI cap if loan held in portfolio 3 years	N/A
Purchase CLTV/Piggyback	NA / Yes	70% / No
Refinance CLTV/Junior Lien	NA / Yes	70% / Yes
Negative Amortization	No	No
Interest Only	No	No
Balloons	Small creditor exception	No
Points and Fees	3% cap on loans >= $100,000	3% cap on loans >= $100,000
Prepay Penalty - Fixed Rate	Maximum penalty included in points and fees	Maximum penalty included in points and fees
Prepay Penalty - ARM	Prohibited	Prohibited
Credit History	N/A	690**
Max Term	30yr	30yr
Property Type	Any dwelling	1 to 4 family
Occupancy	Primary/Second Home/Investor	Primary
Documentation	Full	Full

*QRMs include loans permitted under the CFPB's "temporary QM" definition: loans eligible to be purchased by Fannie Mae or Freddie Mac and loans eligible to be insured or guaranteed by FHA, VA or USDA. The temporary QM proviso for GSE loans lasts for the lesser of seven years and so long as they are in conservatorship, and for FHA, VA and USDA loans it lasts for the lesser of seven years and until the government agency implements its own rule. QM plus does not include the temporary QM proviso for loans eligible to be purchased by Fannie Mae or Freddie Mac.
** 690 FICO score is used as a proxy for the credit history included in the new proposal.

Market Reach:
Market reach for QRM and QM plus were determined based on approximately 59 million loans originated from 2001 – 2012 contained in the CoreLogic Database. Market reach was calculated as a percentage of total conventional loans. Market reach for each option is set forth below:

Market Reach* by Loan Type

2001-2012 Conventional Loan Originations

	QRM	Non-QRM	QM plus	Non-QM plus
2001	61%	39%	11%	89%
2002	70%	30%	17%	83%
2003	72%	28%	20%	80%
2004	56%	44%	11%	89%
2005	48%	52%	8%	92%
2006	44%	56%	6%	94%
2007	54%	46%	7%	93%
2008	75%	25%	14%	86%
2009	90%	10%	29%	71%
2010	90%	10%	25%	75%
2011	91%	9%	22%	78%
2012	92%	8%	21%	79%

*Market reach based on loan count
Source: CoreLogic Database

Performance Data:
To determine loan performance, Genworth analyzed approximately 53 million loans originated from 2001-2010 as to whether they met the criteria for the QRM or QM plus. Loans originated after 2010 are not sufficiently mature (seasoned) to provide meaningful data on delinquency and default trends. Because loans can experience delinquency and return to performing status, Genworth defined "default" as loans that, upon termination, were in foreclosure or "REO" (real estate owned) status or were 90 days or more delinquent. This definition of default mirrors the definition used in Genworth's 2011 QRM comment letter. Performance data was compiled through August 31, 2013.

Genworth benchmarked the performance of the proposals it analyzed by comparing default rates to overall conventional mortgage originations. The analysis calculated default rates for loans that satisfy the definition of QRM and QM plus, and for conventional loans. While the default rate for QM plus loans is significantly lower than for QRMs, the better performance comes at the cost of a very narrow market reach that excludes many creditworthy borrowers.

Loan Default Rates* by Loan Type

2001-2010 Loan Originations

	Conventional	QRM	QM plus
2001	2.7%	3.0%	0.5%
2002	2.2%	2.1%	0.4%
2003	2.0%	1.9%	0.5%
2004	3.8%	3.3%	0.8%
2005	8.4%	6.0%	1.7%
2006	14.3%	9.7%	2.3%
2007	14.6%	10.7%	2.0%
2008	5.3%	4.4%	0.9%
2009	1.0%	0.9%	0.1%
2010	0.7%	0.7%	0.1%
2001-2010	5.7%	3.8%	0.7%

*Default rates based on loan count
Source: CoreLogic Database

Further Information:
Genworth would be pleased to provide the Agencies with further details regarding the data analyzed, including the methodology for programming and coding. We welcome the opportunity to answer any questions the Agencies may have regarding this analysis.