ARCH CAPITAL GROUP LTD.

Proposal and Comment Information

Title: Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations, R-1887

Comment ID: FR-2026-0007-01-C85

Submitter Information

Organization Name: Arch Capital Group Ltd.

Organization Type: Company

Submitted Date: 06/18/2026

Please see Arch's comments on Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations [R-1887]

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June 18, 2026

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
Docket ID OCC-2026-0265 / RIN 1557-AF52
Docket ID OCC-2026-0034 / RIN 1557-AF49
via: regulations.gov

Mr. Benjamin W. McDonough
Secretary
Board of Governors of the Federal Reserve System
Docket No. R–1887 / RIN 7100-AH20
Docket No. R–1888 / RIN 7100-AH21
via: federalreserve.gov/apps/proposals/

Ms. Jennifer M. Jones
Deputy Executive Secretary
Federal Deposit Insurance Corporation
RIN 3064-AF29
RIN 3064-AG23
via: comments@FDIC.gov

Re: Arch's Response to (1) Regulatory Capital Rules: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations and (2) Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-weighted Assets

Dear Sir or Madam:

Arch Capital Group Ltd., on behalf of itself and its subsidiaries ("Arch"), appreciates the opportunity to submit this comment letter in response to the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (together, the "Agencies") proposed revisions to (1) Regulatory Capital Rules: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations[1] ("ERBA Proposal") and (2) Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-weighted Assets[2] ("Standardized Proposal") (collectively, the "Proposed Basel III Regulations" or the "Proposals").

[1] 91 Fed. Reg. 14,952 (Mar. 27, 2026).
[2] 91 Fed. Reg. 15,332 (Mar. 27, 2026).

Arch, through its insurance subsidiaries, provides commercial, institutional, and individual customers with mortgage, property-casualty, and reinsurance offerings on a worldwide basis. Arch has made a long-term strategic commitment to the U.S. mortgage market, investing in, managing, and distributing credit risk in a variety of single family and multifamily executions. As the pioneer of risk-based pricing and mortgage insurance linked notes in the mortgage insurance industry, Arch has developed its own internal credit risk and econometric models and invests heavily in the intellectual capital required to support underwriting decisions and risk management. Thus, Arch is well-positioned to provide input on the Proposed Basel III Regulations related to residential mortgage exposures and credit risk transfer.

More specifically, Arch, through its subsidiaries, Arch Mortgage Insurance Company and United Guaranty Residential Insurance Company, (together "Arch MI") is a leading mortgage insurance provider in the United States, having $287 billion of insurance in force as of March 31, 2026. Arch's reinsurance subsidiaries pioneered and remain leading participants in mortgage credit risk transfer ("CRT") programs, both in the U.S. and in Europe. Arch has continuously participated in Fannie Mae and Freddie Mac's (together, the "GSEs") CRT programs since their inception in 2013 as an investor and advisor in various structures and transactions. Since 2018, Arch has also provided credit protection to large banking institutions in Europe, a market that has grown significantly in the past few years. It is with this varied experience in pricing, managing, and distributing mortgage credit risk in a variety of contexts that Arch is pleased to offer the following comments to the Proposals for consideration.

I. Executive Summary

Arch appreciates the intent of the Agencies to implement a proportionate risk-based capital requirement for residential mortgage exposures that incorporates both renewed bank participation in the mortgage market and a safe and sound banking system. Unfortunately, the Agencies' Proposals fall short of meaningfully increasing bank participation in the mortgage market, particularly for consumers with high loan-to-value ("LTV") mortgages.

While the Proposals appropriately increase risk sensitivity through LTV-based risk weights, the complete exclusion of private mortgage insurance ("MI") from the LTV calculation and risk weight determination creates a fundamental disconnect between the capital requirements and empirically observed loss experience. By failing to recognize the loss-mitigating benefit that credit enhancement provides on losses associated with default, the Proposals treat insured and uninsured loans at the same LTV as presenting identical risk—an assumption directly contradicted by decades of historical performance data demonstrating that MI reduces loss severities by approximately 22.5 percentage points across all origination vintages.[3]

The Agencies appear to exclude recognition of MI due to concerns about counterparty risk—specifically, the wrong-way risk of insurer insolvency being correlated to stress in the housing market. However, these concerns do not justify a binary, all-or-nothing approach that assigns zero recognition to

[3] https://www.urban.org/sites/default/files/2025-12/Final_Mortgage_Insurance_Data_at_a_Glance_2025_0.pdf

MI. Such an approach ignores the structural reforms that have fundamentally strengthened the mortgage insurance industry's financial position since the 2008 Great Financial Crisis ("GFC"). Empirical evidence demonstrates that MI claims have been paid consistently during severe downturns, including the GFC and the Covid-19 Pandemic. Rather than wholesale exclusion, Arch proposes the Agencies adopt the same well-established methodology used by the Federal Housing Finance Agency ("FHFA") in the Enterprise Regulatory Capital Framework ("ERCF"), which explicitly addresses wrong-way risk through counterparty haircuts, while still recognizing the credit enhancement MI provides. The ERCF counterparty haircut calculations are essentially identical to the Basel IRB approach for credit risk capital calculations, with the important addition of a concentration risk multiplier to account for wrong-way monoline MI-driven credit risk—yielding between a 14.2% and 17.8% haircut for approved mortgage insurers,[4] a measured and empirically grounded approach to wrong-way risk.[5]

Low-to-moderate income ("LMI") consumers are impacted most acutely by the proposal to give zero recognition to MI. A significant majority of LMI consumers are unable to make a large downpayment. Consequently, their mortgages are more likely to receive a risk weight of at least 55% under the Standardized Proposal, which is higher than the 50% risk-weight banks can achieve today. Without recognition of MI, the capital requirements will strongly incentivize banks to originate and hold fewer high LTV mortgages on balance sheet, which is contrary to the Agencies' explicit aim to revitalize mortgage lending by banks. As Vice Chair Michelle Bowman noted in her speech to the American Bankers Association, "…fewer banks engaged in mortgage origination and servicing has reduced the consumer choice and competition that drives down costs. In addition, borrowers that experience financial distress seem to fare worse during financial downturns with nonbank servicers."[6] Allowing banks to recognize MI when calculating the effective LTV of a loan will increase bank origination of high LTV mortgages, which in turn will improve consumer choice and servicing outcomes, particularly LMI consumers.

Finally, Arch proposes the Agencies adopt amendments to provide capital relief for banks that transfer credit risk through insurance-based transactions. Federal financial regulators should treat like-risks consistently and capital rules should reflect as much. In particular, the capital supporting mortgage risk should be comparable across banks (both small and large) and the GSEs to enable robust competition, while mitigating the risk of arbitrage and unintentional risk concentrations. Following the financial crisis, the FHFA wisely directed the GSEs to reduce taxpayer exposure by transferring mortgage credit risk to private capital. Over more than 15 years, through capital markets- and insurance-based transactions, the GSEs have transferred hundreds of billions of dollars of risk to a diverse array of private credit investors, lowering systemic risk while supporting lower mortgage costs for borrowers. Importantly, the cost of insurance-based CRT, provided by diversified multiline insurers, has remained more consistent over time, helping to

[4] "Approved insurers" are defined in this context as eligible to provide mortgage insurance on GSE acquisitions, which is predicated on compliance with the risk, capital and counterparty requirements documented in the Private Mortgage Insurers Eligibility Requirements ("PMIERs").
[5] In addition to the ERCF, all of the major rating agencies recognize and quantify (with appropriate haircuts) the benefit of mortgage insurance in their RMBS criteria.
[6] https://www.federalreserve.gov/newsevents/speech/bowman20260216a.htm

preserve consumer affordability. Allowing banks to utilize the same tools to manage credit risk as used by the GSEs, including through MI and insurance-based CRT with well-capitalized diversified insurers, will ensure that U.S. banks remain competitive with the GSEs across economic cycles. Creating parity also mitigates the potential for risk aggregation concentrated in one sector, which will enhance overall market stability and resilience.

The remainder of Arch's comments provide analysis in support of three proposed amendments that will renew bank participation in the mortgage market while maintaining a safe and sound banking system.

- **Proposal #1:** permit banks to recognize the benefit of MI coverage, subject to a counterparty haircut to account for wrong-way risk, to determine the Effective LTV and risk-weight of a residential mortgage exposure.[7]
- **Proposal #2:** unlock insurance-based CRT by modifying the definition of eligible guarantor to permit the requirement for investment grade unsecured debt security to be issued and outstanding by the eligible guarantor or their direct or indirect parent corporation.[8]
- **Proposal #3** reduce the risk weight assigned to prudentially regulated eligible guarantors under the substitution approach, which is appropriate given the supervisory equivalency between insurers, depository institutions, foreign banks, and credit unions.[9]

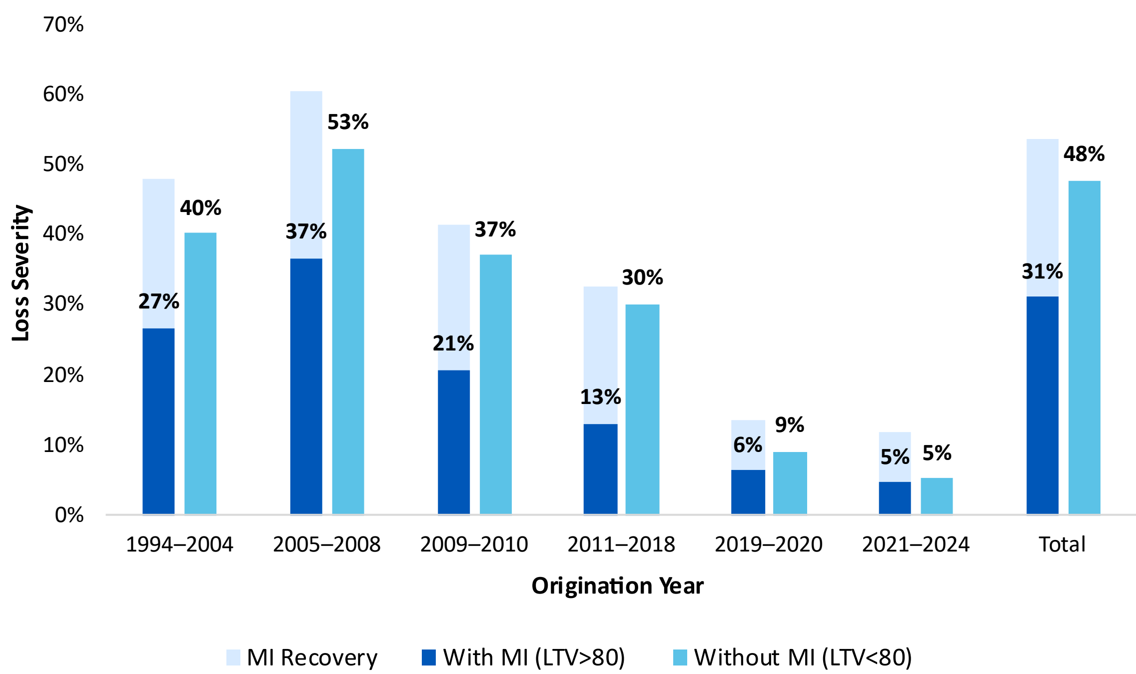
II. Mortgage Insurance Provides Significant Loss-Mitigating Benefits

Mortgage insurance ("MI") significantly reduces losses to banks and empirical data show this to be true even during periods of stress, with mortgage insurers having paid $60 billion in claims since the GFC.[10] Since most loans protected by MI are purchased by the GSEs, and their datasets are publicly available, it is instructive to look at the loss severities experienced by the GSEs over time on low-LTV loans (i.e. loans with LTVs < 80%) and high-LTV loans (i.e. loans with LTVs ≥ 80% that require MI) to illustrate the significant loss reduction provided by MI.

[7] Proposal #1 is in response to Question 21 and 22 in the ERBA Proposal and Question 8 in the Standardized Proposal.
[8] Proposal #2 is in response to Question 51 in the ERBA Proposal and Question 22 in the Standardized Proposal.
[9] Proposal #3 is in response to Question 26 in the ERBA Proposal.
[10] https://www.usmi.org/wp-content/uploads/2025/08/MI-in-Your-State-Report-2025.pdf

Exhibit 1[11]

Loss Severities for GSE Loans with and without PMI



As expected, the data above confirms that high-LTV loans have higher gross severities than low-LTV loans, prior to the loss reducing impact of MI. After MI recovery, however, the net loss severities for high-LTV loans are significantly lower than the loss severities for low-LTV loans across all origination years. Importantly, the MI recovery reduced the loss severities during the origination years impacted by the 2008 Great Financial Crisis ("GFC") and the Covid-19 Pandemic.[12] Private MI has proven to be a reliable method for shielding lenders, investors, and the GSEs, as well as American taxpayers, from losses on mortgage credit risk.

III. The MI Industry is a Source of Financial Strength in a Reformed Market

A. MI Counterparty Risk is Drastically Reduced

Following the GFC, the regulations applicable to both the MI industry and mortgage underwriting standards were re-written, resulting in a financially stable regime where private capital provides significant first loss protection to a market marked by a dramatic decrease in credit risk. The GSEs implemented private

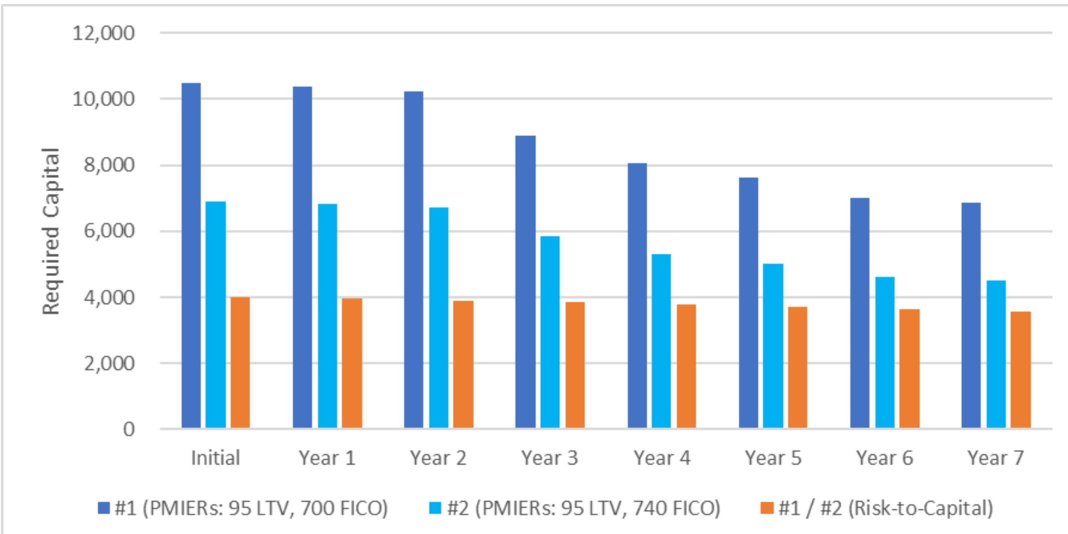
[11] Urban Institute Housing Finance Policy Center Mortgage Insurance Data At A Glance, 2025 at https://www.urban.org/sites/default/files/2025.12/Final_Mortgage_Insurance_Data_at_a_Glance_2025_0.pdf

[12] The data above includes claims paid by the three MI companies that failed during the stress of the GFC. Contrary to often-cited narratives, under strict regulatory rehabilitation and run-off frameworks designed to protect policyholders, RMIC, Triad, and PMI have paid 100%, 75% and 81% of valid claims, respectively.

mortgage insurer eligibility requirements ("PMIERs") in 2015, which structurally reformed the MI industry by institutionalizing 1) stronger terms and conditions of coverage, and 2) risk-based capital requirement that are significantly higher than what exists under state insurance regulation. To illustrate the conservative risk-based capital requirement of PMIERs, Exhibit 2 compares the PMIERs and state insurance regulatory capital requirements (which remain unchanged pre-and post-GFC) applicable to two loans.

Exhibit 2

Comparison of PMIERs versus State Insurance Regulation (Risk-to-Capital)[13]



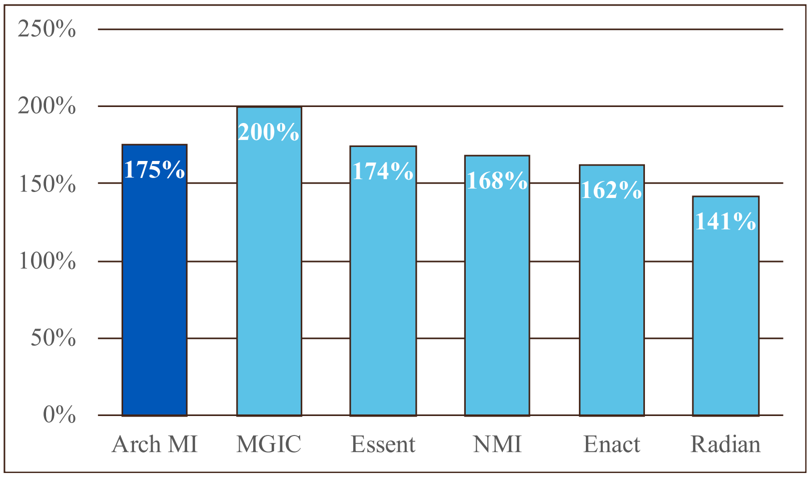
The two illustrative loans share the same LTV and only differ in credit score. Being a risk-based requirement, the first loan requires initial PMIERs capital of more than two and a half times when compared to state regulation, while the second loan requires 73% higher capital under PMIERs. The increased risk-based capital required under PMIERs continues throughout the life of the loan, despite favorable seasoning factors applied to the loans starting in year three.

Not only is the PMIERs capital requirement a significantly higher measure of capital, but mortgage insurers are currently holding between 1.4 to 2.0 times that amount. Exhibit 3 reflects the PMIERs Sufficiency Ratios of the mortgage insurers approved to insure loans sold to the GSEs.

[13] Illustrative example based on initial $100,000 risk in force. The risk-to-capital ratio is the predominant metric used by state insurance regulatory entities.

Exhibit 3

PMIERs Sufficiency Ratio as of March 31, 2026[14]



The Sufficiency Ratio divides a mortgage insurer's Available Assets by its Risk Based Required Assets (which is the risk-based loan level capital requirement). Bottom-line, the MI industry is a source of financial strength.

In addition to maintaining strong capital positions, since 2015, mortgage insurers have programmatically transferred a portion of credit risk through CRT to diversified, multiline reinsurers and capital markets investors, which materially reduces the wrong-way risk concern of the Agencies. Arch MI utilizes CRT to manage its net loss exposure in its realistic disaster scenario, a stress scenario that assumes home prices decline 25% below their fundamental value. By programmatically ceding credit risk to third parties and prudently managing its net exposure, Arch MI would easily meet its insurance obligations during severe stress. In addition to enabling mortgage insurers to manage their risk aggregations, regularly issuing CRT transactions with sophisticated third-party investors and reinsurers provides Arch MI with important market feedback and third-party views of the credit risk of its insured loans. The feedback loop provides both the mortgage insurers and their regulators with an independent view of the credit risk being insured. Banks stand to enjoy these same benefits by regularly transferring credit risk to mortgage insurers and other CRT investors.

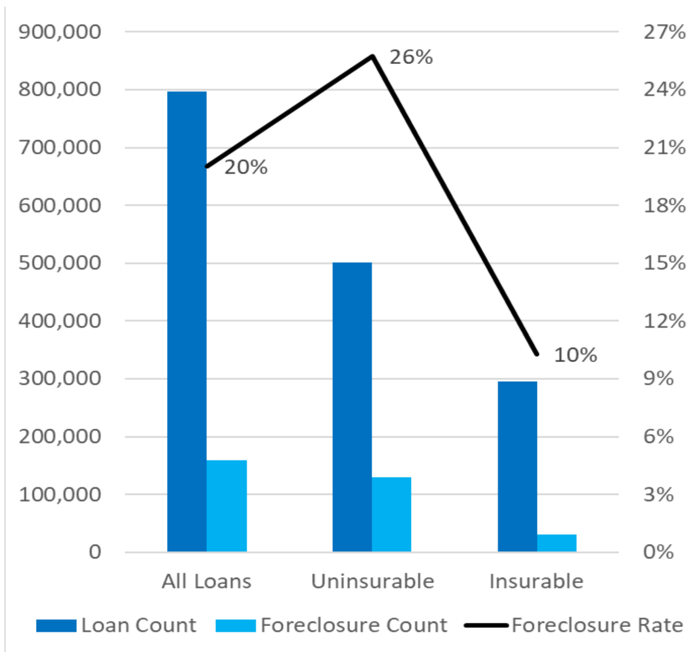
B. Mortgage Market Credit Risk is Drastically Reduced

Benefitting from regulatory reforms such as the Ability-to-Repay and Qualified Mortgage regulations in 2014 ("ATR" and "QM", respectively), the mortgages originated today are far safer than before the GFC. Simply put, the market is devoid of the risky product features that most contributed to the

[14] Sources: SEC filings and annual statutory filings for Arch Mortgage Insurance Company and United Guaranty Residential Insurance Company, Essent Guaranty, Inc., Radian Guaranty, Inc., National Mortgage Insurance Corp., Mortgage Guaranty Insurance Corp. and Enact Mortgage Insurance Corp.

prior housing bubble, and GFC. Excluding uninsurable loans[15] from the market reduces the potential for future insured losses by an order of magnitude. Exhibit 4 is a stylized example illustrating how there would have been half the foreclosures experienced during the GFC if today's lending standards, including the ATR and QM reforms, were in place in 2006.

Exhibit 4
2006 Foreclosure Rate Comparison



The reduction in credit risk combined with the capital strength of the MI industry creates an opportunity to enhance financial stability by increasing bank credit risk transfer.

IV. LMI Consumers Most Acutely Impacted by All or Nothing Approach to MI

Bank originations are critical to growing affordable homeownership, and mortgage insurance is key to ensuring that LMI neighborhoods are served. Without recognition of MI in the capital framework, the Proposals will disproportionately harm the LMI and first-time homebuyers who most depend on high-LTV lending to achieve homeownership.

[15] Uninsurable loans are defined as loans that were insured pre-GFC, but are no longer originated as a result of the ATR/QM rules, and include loans having one or more of the following attributes: negative amortizing loans; option ARMs; interest-only loans; limited or no-documentation loans; credit scores <620; debt-to-income ratios > 50; and LTV > 97.

A. *Saving for a Down Payment Is the Primary Barrier to Homeownership*

Saving for a down payment is the most significant hurdle cited by first-time homebuyers. Eighty-one percent (81%) of aspiring homeowners identify down payment and closing costs as a "significant" obstacle."[16] Additionally, the share of first-time homebuyers has fallen to a historic low of 21% of all home sales, down from a historical norm of approximately 40%.[17] Finally, in 2024, MI helped more than 800,000 borrowers access homeownership, 65% of whom were first-time buyers. Nearly 35% had annual incomes below $75,000.[18] The data is clear: affordability is challenging and MI bridges the down payment gap for LMI and first-time homebuyers.

B. Banks Are Uniquely Situated to Serve LMI Communities — But Their Share Is Shrinking

Banks are the only mortgage originators subject to the Community Reinvestment Act ("CRA"), which requires them to meet the credit needs of LMI neighborhoods. Yet bank market share of all mortgage originations has fallen from 42.5% in 2018 to just 30.1% in 2024. Non-bank mortgage companies, exempt from CRA obligations, now originate 53.3% of all home loans and dominate home purchase lending at 66.1%.[19] This shift has tangible consequences. As NCRC has warned, the continued migration of mortgage origination away from CRA-regulated banks "thwarts Congress's attempts to drive loan capital into communities that were historically fenced out of the financial services system." Banks, particularly smaller banking institutions, maintain physical branches, deposit relationships, and local knowledge that enable holistic financial relationships, not merely transactional lending. However, their share will continue to shrink if the Proposals are enacted without modification. The Standardized Proposal assigns a 55% risk weight to loans with LTVs between 90-100% LTV, while under existing Basel Regulations, banks can utilize MI to reduce the effective LTV to 89.99% to achieve a 50% risk weight. In other words, the risk weight for high LTV loans will be higher under the new framework. Capital rules that penalize high-LTV lending will accelerate the migration of mortgage origination to non-bank lenders outside the CRA framework, precisely the opposite of the Agencies' stated intent to revitalize bank participation in mortgage lending.

V. Wrong-way Risk Does not Justify All or Nothing Approach to MI

While the loss reduction benefit from MI is clear, and the counterparty risk of the MI industry has been materially mitigated through post-GFC structural reforms, Arch acknowledges the prudence of imposing a counterparty haircut to address the Agencies' concern about the wrong-way risk of monoline credit insurance. Importantly, this concern does not require—and should not result in—the wholesale exclusion of MI from the capital framework. Instead, the Agencies should adopt the same well-established approach used by the Federal Housing Finance Agency ("FHFA") in the Enterprise Regulatory Capital

[16] Source: Bankrate's 2025 Down Payment Survey

[17] National Association of Realtors (NAR), 2025 Profile of Home Buyers and Sellers.

[18] U.S. Mortgage Insurers (USMI) Report at https://www.usmi.org/press-release-new-report-800000-low-down-payment-borrowers-purchased-homes-in-2024-with-private-mortgage-insurance/

[19] National Community Reinvestment Coalition 2025 Mortgage Market Series at https://ncrc.org/mortgage-market-report-series-part-1-introduction-to-mortgage-market-trends/

Framework ("ERCF"), which the FHFA developed to address precisely this risk in the context of the Enterprises' (or GSEs) reliance on mortgage insurers.

The ERCF framework is heavily influenced by the Basel rules, with similarities in both architecture and philosophy. In fact, the ERCF borrows its counterparty haircut derivations from Basel's IRB approach to calculating credit risk capital. Most formulas are used without modification, and importantly, use the same 99.9% confidence interval. This explicitly addresses wrong-way risk, recognizing that loan level performance and MI company performance are correlated to the same systemic factor (the broader economy) and will experience the same level of stress at the same time. One adjustment made by the ERCF is the addition of asset value correlation multipliers ("AVCM") to the stress probability of default formula, addressing wrong-way risk concerns with the ability to differentiate haircuts by a counterparty's mortgage concentration. The resulting counterparty haircuts in the ERCF for GSE-approved MI companies range between 14.2% and 17.8% and would be 17.2% to 20.9% for non-approved insurers of the same counterparty strength.[20]

Exhibit 5

ERCF Counterparty Haircut

Figure 2: Parameterization of the Single-family Counterparty Haircut Risk Multipliers

$$CP\ Haircut = LGD_{stress} * PD_{stress} * MA$$

where LGD_{stress} denotes stress loss given default, PD_{stress} is stress default probability, and MA is maturity adjustment. MA is calculated as follows:

$$MA = \left(\frac{1+(M-2.5)*b}{1-1.5*b}\right),$$

where

$$b = [0.11852 - 0.05478 * \ln(PD)]^2.$$

PD_{stress} is a function of expected probability of default PD, asset value correlation ρ, and an asset value correlation multiplier ($AVCM$). PD_{stress} is calculated as follows:

$$PD_{stress} = \left[N\left(\left(\frac{1}{\sqrt{1-AVCM*\rho}}\right) * G(PD) + \left(\sqrt{\frac{AVCM*\rho}{1-AVCM*\rho}}\right) * G(SCI)\right)\right],$$

$$\rho = \left[0.12 * \left(\frac{1-\exp(-50*PD)}{1-\exp(-50)}\right) + 0.24 * \left(1 - \frac{1-\exp(-50*PD)}{1-\exp(-50)}\right)\right]$$

where SCI is supervisory confidence interval, N(.) is the standard normal distribution, and G(.) is the inverse standard normal distribution.

Parameters	Proposed Values
LGD_{Stress}	45%
SCI	99.9%
Correlation function (ρ)	Basel (PD)
AVCM for High Mortgage Concentration Risk and non-Compliant Insurer	175%
AVCM for High Mortgage Concentration Risk and Compliant Insurer	150%
AVCM for Not High Mortgage Concentration Risk	125%
Maturity 30yr (M)	5
Maturity 15/20yr (M)	3.5
NPL Maturity (M)	1.5

[20] CFR § 1240.33(e)(3)(ii) Table 12.

Proposal #1: Calculate Effective LTV Net of MI Coverage with a Counterparty ("CP") Haircut

In Question 8 of the Standardized Proposal and Question 21 of the ERBA Proposal, the Agencies ask:

What would be the pros and cons of providing explicit recognition of private mortgage insurance in the calculation of LTV ratios for purposes of determining the risk weights for residential exposures? What, if any, increases in procyclicality and incentives for increased risk-taking by covered banking organizations might such recognition create? ***What conditions could the agencies impose on such recognition to mitigate concerns about the wrong-way risk of monoline credit insurance? In recognition that private mortgage insurance may not provide protection under all relevant stress events, what are the advantages and disadvantages of recognizing a portion (such as 50 percent) of the value of the private mortgage insurance in determining the total outstanding amount of the loan in the calculation of the LTV ratio?*** *Please provide any data and analysis supporting alternative approaches.*

Arch recommends that the Agencies adopt a similar approach to the ERCF and permit banks to calculate the Effective LTV of a loan, including the benefit of MI coverage reduced by a CP haircut to account for the wrong way risk, to determine the applicable risk weight for residential mortgage exposures. Specifically, Arch recommends the Agencies set the CP Haircut at 15%, which is within the range of CP Haircuts in the ERCF for insurers with high mortgage concentration risk.

Effective LTV = LTV × [1 - MI Coverage % × (1 – Counterparty Party ("CP") Haircut)]

Example: An ERBA bank originates a 90% LTV loan with 25% MI Coverage and no dependency on real estate cash flows.

	Without MI	With MI
Original LTV	90%	90%
MI Coverage %	N/A	25%
Effective LTV after MI benefit	90%	67.5% = 90% × (100% – 25%)
Effective LTV after CP Haircut	90%	70.875% = 90% × [100% – 25% × (100% – 15%)]
Risk Weight	40% (>80–90% band)	30% (>60–80% band)

Arch's recommended approach is both proportionate and simple. Unlike the Proposals' all or nothing approach, Arch's approach recognizes the value of the MI coverage, including the amount of coverage purchased (i.e. 25% coverage in the example above). In addition, Arch's approach prudently discounts the value of the coverage to capture the wrong-way risk associated with monoline counterparties, which increases the Effective LTV from 67.5% to 70.875%. Arch's approach accurately aligns regulatory capital with underlying credit risk, while appropriately recognizing the wrong way risk highlighted by the Agencies. In turn, this calibration will strengthen incentives for banks to deploy capital into mortgage lending, reinforcing liquidity and advancing access to credit in the communities they serve. [21]

VI. Insurance-based CRT Provided by Diversified Insurers Enhances Resilience and Supports Affordable Credit

Next, the Agencies should amend the Proposals to permit banks to use insurance-based CRT, provided by diversified insurers, as another tool to manage credit risk. Under the existing U.S. Basel III Regulations, banking organizations may recognize certain types of credit risk mitigants (such as guarantees and credit derivatives) to reduce their capital requirements for certain credit exposures, based on the creditworthiness of the *eligible guarantor* and the contract features of the underlying *eligible guarantee*. Unfortunately, even though insurance companies generally have a high degree of creditworthiness, and insurance contracts generally meet contractual requirements, the definition of eligible guarantor and the risk weight assigned to insurance coverage prevent banks from accessing this tool. Insurance-based CRT is typically a simple bilateral contract, without the operational complexity and frictional costs associated with more sophisticated capital markets transactions, which makes it an optimal tool for smaller Category III and IV banks to manage credit risk resulting from the increased lending activities these Proposals aim to achieve.

While insurance-based CRT is unavailable to U.S. banks, the GSEs and European banks have programmatically benefited from insurance-based CRT protection since 2013 and 2018, respectively. Since the inception of the GSEs' CRT programs, hundreds of billions of dollars of mortgage credit risk have been transferred to diversified private capital investors, materially reducing taxpayer exposure and lowering systemic concentration of mortgage risk. The performance of insurance-based CRT during both the Covid-19 Pandemic and the recent period of rising interest rates confirms that diversified multiline insurers are reliable counterparties across market cycles. Since 2018, large European banking institutions have also engaged diversified insurers to provide credit protection, demonstrating that a well-regulated framework for insurance-based CRT can coexist with prudential safety and soundness objectives.[22] The Agencies

[21] Alternatively, the CP Haircut could be applied to the risk weight benefit instead of the MI coverage amount. Discounting the risk weight benefit would result in dynamic end risk weights, rather than aligning to the fixed risk weights prescribed in the Proposals. Illustrating the alternative approach using the same 90% LTV loan with 25% MI Coverage, the end risk weight would be 31.5%, rather than 30%. i.e. (40% RW Before MI – 30% RW after MI) * (100% – 15% CP Haircut) = 8.5%. The risk weight benefit would be reduced from 10% to 8.5% resulting in an end RW of 31.5%.

[22] The EU Capital Requirements Regulation (the "EU CRR") and the UK "onshored" Capital Requirements Regulation (the "UK CRR") both include insurance companies (as "regulated financial sector entities") in its list of specifically eligible guarantors. *See* EU CRR Art. 201(1)(fa); UK CRR Art. 201(1)(fa). Furthermore, in accordance with the approach in the Basel Framework, eligible guarantors under both the EU CRR and the UK CRR include corporate entities that have a credit assessment by an "eligible credit assessment institution." *See* EU CRR Art. 201(1)(g); UK CRR Art. 201(1)(g).

should look to this established precedent when considering whether to permit U.S. banks similar access to insurance-based CRT.

Critically, the wrong-way risk concern that underlies the Agencies' hesitation regarding monoline MI does not apply to diversified, multiline insurers providing credit risk transfer. Unlike monoline credit insurers, eligible guarantors maintain diversified books across property-casualty, specialty, and reinsurance lines. This diversification means that a housing downturn does not threaten the solvency of the guarantor—the very condition that defines wrong-way risk. The Agencies should distinguish between monoline and diversified insurers when assessing counterparty risk for purposes of the eligible guarantor framework.

The Proposals pose two barriers that must be addressed to unlock the insurance-based CRT market for U.S. Banks.

A. *Amending the Definition of Eligible Guarantor*

The first barrier that must be addressed is the requirement that an eligible guarantor has "issued and outstanding an unsecured debt security without credit enhancement that is investment grade." In the United States, Section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") required the Agencies to remove all references to external ratings from their regulations; thus, an alternative approach was adopted that does not take external ratings into account in defining who may be deemed an eligible guarantor. The requirement for issued and outstanding investment grade debt is a proxy for counterparty strength, meaning that only insurers of sufficient size, capitalization and expertise will be able to issue investment grade debt.

Using the issuance of investment grade debt as an indication of counterparty strength and sophistication is conceptually fine (in the absence of a defined regulatory counterparty framework); the issue is that insurance companies typically do not issue debt securities, investment grade, exchange traded or otherwise. Instead, debt issuance and similar financing functions are performed by the insurance company's parent holding company. Thus, the insurance company does not qualify as an eligible guarantor, despite being a part of a financially sophisticated insurance group that has investment grade debt outstanding.

Proposal #2: Amend the Definition of Eligible Guarantor to Allow Debt Issuance by Group

In Question 22 of the Standardized Proposal and Question 51 of the ERBA Proposal:

The agencies seek comment on the requirement that the entity has issued and outstanding an unsecured debt security without credit enhancement that is investment grade to meet the definition of an eligible guarantor. What, if any, alternatives to this requirement should the agencies consider to help to ensure that eligible guarantors can be expected to perform on guarantees and what would the pros and cons of those alternatives be?

Arch respectfully urges the Agencies to address this in the final rule by amending clause (2)(i) of the definition of "eligible guarantor" as follows:

Eligible guarantor means:

…

(2) An entity (other than a special purpose entity):

(i) That at the time the guarantee is issued or anytime thereafter, has **(or, if the entity is investment grade, is directly or indirectly controlled by an entity that has)** issued and outstanding an unsecured debt security without credit enhancement that is investment grade;

(ii) Whose creditworthiness is not positively correlated with the credit risk of the exposures for which it has provided guarantees; and

(iii) That is not an insurance company engaged predominately in the business of providing credit protection (such as a monoline bond insurer or re-insurer).

Note that the recommended language permits consideration of investment grade debt issued by an entity that controls the eligible guarantor only if the eligible guarantor ***itself*** is investment grade. The banking organization would be required to make investment grade determinations about ***both*** the eligible guarantor (as an entity) and the parent company's outstanding debt securities (as exposures). Allowing debt to be issued within the insurance group, rather than required by the eligible guarantor, reflects how insurance (and bank) holding company groups operate in practice, while not diluting the criteria demonstrating counterparty strength and sophistication.

B. *Lowering the Risk Weight of Eligible Guarantees provided by Eligible Guarantors*

The second barrier that must be addressed to unlock the insurance-based CRT market is the risk weight relief that banks receive from eligible guarantees provided by eligible guarantors. Currently, exposures to insurance companies are treated as any other corporate exposure despite clear differences between the risks associated with exposures to highly regulated insurance companies and the risks associated with exposures to other types of companies. U.S. prudentially regulated insurance companies, like federally regulated financial institutions, are subject to strict state regulatory requirements including capital requirements, investment limitations, liquidity management, stress testing, and risk management. Foreign insurance companies in jurisdictions with a "covered agreement"[23] negotiated with the United States, are subject to comparable regulation. A covered agreement "relates to the recognition of prudential measures with respect to the business of insurance or reinsurance that achieves a level of protection for insurance or reinsurance consumers that is substantially equivalent to the level of protection achieved under state insurance or reinsurance regulation."[24] To date, the United States has entered into such agreements

[23] Section 502 of the Dodd-Frank Act authorized the Secretary of the Treasury and the U.S. Trade Representative to jointly negotiate a "covered agreement" on behalf of the United States with one or more foreign governments, authorities or other regulatory entities.

[24] U.S. Department of the Treasury, Covered Agreements, https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/federal-insurance-office/covered-agreements.

with the European Union (2017) and the United Kingdom (2018). Furthermore, the NAIC recognizes certain non-U.S. jurisdictions as "reciprocal jurisdictions" in accordance with the NAIC Credit for Reinsurance Model Law and Regulation based on a determination of the effectiveness of the financial solvency regulation. Based on the comparable supervisory insurance regulatory regimes, insurance companies should not be treated as general corporate exposures.

Proposal #3: Reduce the Risk Weight for Prudentially Regulated Eligible Guarantors

Arch respectfully proposes that the Agencies add prudentially regulated eligible guarantors to the general risk weight provision applicable to depository institutions, foreign banks and credit unions to the extent that the eligible guarantee meets applicable recognition requirements for substitution or synthetic securitization treatment. Prudentially regulated eligible guarantors should be assigned the same risk weight as an exposure to a U.S. depository institution or credit union (in the case of a U.S. insurance company) or a foreign bank (in the case of a foreign insurance company).

§ ___.111 General risk weights.
1. Sovereign exposures …
2. Certain supranational entities and multilateral development banks (MDBs) …
3. Exposures to GSEs …
4. Exposures to a depository institution, a foreign bank, ~~or~~ a credit union**, or a U.S.** [1] **or foreign**[2] **prudentially regulated eligible guarantor**[3] …
5. Exposures to public sector entities (PSEs) …
6. Real estate exposures …
7. Retail exposures …
8. Corporate exposures …
9. Defaulted exposures …
10. Other assets …

Footnote – ___.111

[1] In the case of a U.S. prudentially regulated insurance company, that is an "insurance company" under 12 CFR 217.2.

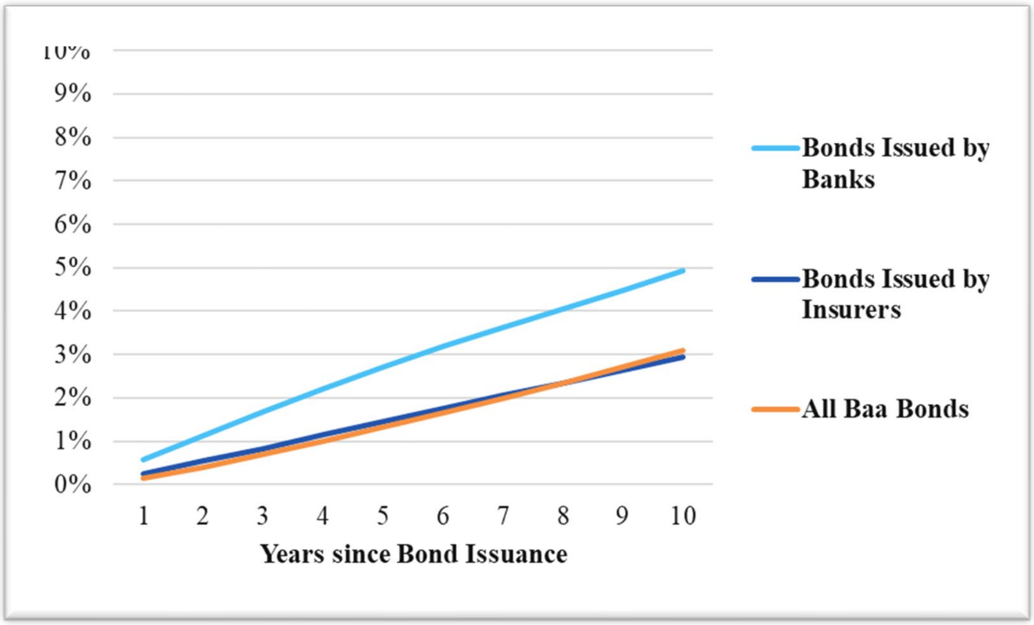
[2] In the case of a foreign prudentially regulated insurance company, that is domiciled and licensed in a foreign country that (A) is (or is a member state of) a jurisdiction subject to a covered agreement, or (B) is a reciprocal jurisdiction. Covered agreement has the meaning given that term in Section 502 of the Dodd-Frank Act (31 U.S.C. 313(r)(2)). Currently, the U.S. has covered agreements in effect with the European Union (entered into force on April 4, 2018) and the United Kingdom (entered into force on December 31, 2020). Reciprocal jurisdiction means a non-U.S. jurisdiction that is included on the National Association of Insurance Commissioners (NAIC) List of Reciprocal Jurisdictions pursuant to the NAIC Credit for Reinsurance Model Law and Regulation.

[3] A [BANKING ORGANIZATION] must assign a risk weight to the portion of any exposure that is covered by an eligible guarantee provided by a qualifying eligible guarantor (to the extent that the eligible guarantee meets the requirements of § ___.120)

Adding prudentially regulated eligible guarantors to the general risk weight provision will reduce the risk weight from 100% to 20%, which is appropriate given the supervisory equivalency between insurers, depository institutions, foreign banks, and credit unions. When comparing exposures to insurers and banks, the average 10-year bond default rate for insurers from 1983-2025 was significantly less than the comparable metric for banks.

Exhibit 6

Global Default Rate



Source: Moody's Global Annual Default Study for 2025

Prudentially regulated insurers are not the same as general corporate exposures. Eligible guarantors are dependable counterparties, and the applicable risk weight should recognize the benefit of prudential regulation. Importantly, Arch's recommended amendment refers to eligible guarantors to incorporate the sophistication and diversification requirements and specifies that the risk weight should only apply to the portion of any exposure that is covered by an eligible guarantee.

As an alternative, the Agencies could provide clarification in the final rule permitting a bank to substitute a 65% risk weight for eligible guarantors that qualify as *investment grade corporates*.

In Question 26 of the ERBA Proposal:

The agencies seek comment on the proposed treatment of corporate exposures to companies that the banking organization determines are investment grade. What, if any, operational challenges might the proposed approach pose for banking organizations? How should the agencies consider addressing such challenges?

The ERBA Proposal permits a banking organization to assign a 65 % risk weight to an exposure to a company that the banking organization determines investment grade. The definition of investment grade[25] (unchanged under the ERBA Proposal) requires that the entity has adequate capacity to meet its financial commitments for the projected life of the asset or exposure, as determined through the bank's internal credit risk rating system. Diversified insurers that meet the definition of eligible guarantor are likely to qualify as investment grade; thus, an eligible guarantee provided by an investment-grade insurance company should qualify for a 65% risk weight under the expanded risk-based approach.

However, this alternative approach has a significant limitation because the new investment grade corporate framework is not included in the Standardized Proposal applicable to smaller Category III and IV banking institutions, institutions that play a critical role in serving local communities and expanding access to credit, particularly for LMI borrowers and smaller markets. These smaller banks are also the most likely to rely on, and benefit from, straightforward insurance-based CRT solutions. Unlike other forms of credit risk mitigation, insurance-based CRT can be implemented through a simple bilateral contract, without the operational complexity and frictional costs associated with more sophisticated capital markets transactions. Expanding access to insurance-based CRT for these institutions would meaningfully strengthen their ability to manage risk while continuing to support lending in the communities they serve. Accordingly, enabling Category III and IV banks to utilize this framework is not only a matter of parity, but of preserving their capacity to meet critical local credit needs. For this alternative approach to work, Arch recommends that the Agencies extend the investment grade corporate framework to the Standardized Proposal.

VII. Conclusion

The Proposed Basel III Regulations represent an important opportunity to align capital requirements with the empirically demonstrated risk-mitigating benefits of mortgage insurance and insurance-based credit risk transfer. However, the current approach—giving zero recognition to MI and excluding diversified insurers from the eligible guarantor framework—fails to achieve the Agencies' stated objective of revitalizing bank participation in mortgage lending, while maintaining safety and soundness.

Arch respectfully urges the Agencies to adopt the three proposals set forth herein: (1) permit banks to calculate the effective LTV net of MI coverage, subject to counterparty haircuts that appropriately account for wrong-way risk; (2) modify the definition of eligible guarantor to permit strong insurers whose parent companies have issued investment-grade unsecured debt to qualify; and (3) ensure that banks have a clear and workable path to recognize the credit strength of eligible guarantors under the substitution approach—by assigning a comparably calibrated risk weight that appropriately reflects the prudentially regulated counterparties, or alternatively by clarifying that the existing 65% risk weight for investment grade exposures applies to eligible guarantees, including under the Standardized Proposal. Arch's proposals are grounded in empirical evidence, draw upon established regulatory precedent in the ERCF and European markets, and will promote the Agencies' goals of financial stability, renewed bank mortgage lending, and expanded access to affordable homeownership—particularly for the LMI communities most acutely impacted by the current framework.

[25] 12 CFR 3.2 (definition of investment grade) at https://www.ecfr.gov/current/title-12/section-3.2.

Arch appreciates the opportunity to provide these comments and welcomes further dialogue with the Agencies on these important issues.