Participants: Matthew Eichner, Maureen Yap, and William Treacy (Federal Reserve Board)

Carol Bouchner, James Bennison, and Anthony Guarino (Genworth)

Summary: Staff of the Federal Reserve Board received from Genworth a joint letter, with attachments, from the Community Mortgage Banking Project, the Community Mortgage Lenders of America, Essent Guaranty, Inc., Genworth, Mortgage Guaranty Insurance Corporation, Radian Guaranty Inc., Republic Mortgage Insurance Company and The PMI Group, Inc. regarding the definition of “qualified residential mortgage.” A copy of the joint letter, with attachments, provided by Genworth is attached below.
November 8, 2010

The Honorable Shaun Donovan
Secretary U.S. Department of Housing and Urban Development

The Honorable Ben S. Bernanke
Chairman of the Board of Governors, Federal Reserve Board

The Honorable Sheila C. Bair
Chairman, Federal Deposit Insurance Corporation

The Honorable Mary L. Shapiro
Chairman, Securities and Exchange Commission

John Walsh
Acting Comptroller of the Currency, Office of the Comptroller of the Currency

Edward DeMarco
Acting Director, Federal Housing Finance Agency

Re: Definition of Qualified Residential Mortgage Pursuant to Section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

Ladies and Gentlemen:

The undersigned organizations represent large and small mortgage lenders and mortgage insurers. As your agencies prepare to develop the definition of a "qualified residential mortgage" ("QRM") (required by Sec. 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”)), we urge you to consider the attached empirical analysis of more than 35 million mortgage loans. This analysis recommends a QRM definition that is firmly based on each of the elements of the statutory framework, and is supported by a robust default analysis that demonstrates a substantially lower default rate for these loans (as required by the Dodd-Frank Act).

Section 941(b) of the Dodd-Frank Act directs your agencies to jointly define a QRM which will be exempt from the risk retention requirements of the Act, taking into consideration an enumerated list of underwriting and product features that historical data indicate result in a lower risk of default. The QRM exemption was a critically important addition to the risk retention requirements of the Act. While risk retention can serve as a strong deterrent to some of the excessive risk taking that led to the housing crisis, if applied across-the-board it would impose significant costs that would reduce liquidity and boost mortgage rates by as much as 3 percentage points, according to some analyst estimates.¹

By establishing clear, statutory standards for certain mortgages that would be exempt from risk retention, the QRM standard creates strong incentives for the origination and securitization of lower risk loans with proven underwriting and product features. Loans not meeting that standard would be subject to varying levels of risk retention. Higher risk lending is not prohibited, but must be done in portfolio (and thus be subject to bank capital requirements) or through securitization structures that require risk retention. This balanced approach to risk retention strengthens underwriting and sound lending behavior within the primary market while attracting responsible liquidity back to the conventional secondary mortgage market.

Attachment A provides a default analysis of more than 35 million conventional (non-FHA/VA) mortgages originated between 2002 and 2008. It covers loans held in portfolio, as well as loans originated and sold into both agency and private label securitizations. Using eight basic product and underwriting criteria to define a Qualified Residential Mortgage (see page 3 of Attachment A), the analysis compared default rates on mortgages that met all eight of these standards (QRM)s with those that did not meet all of these standards (non-QRM)s. The default performance of each annual cohort is calculated through March 2010. The results show that non-QRM$s defaulted at a rate that was over twice the rate of QRM$s. Moreover, this performance benefit was remarkably steady throughout the entire boom-bust cycle.

Consistent with the direction to your agencies in Section 941(b) that mortgage insurance or other credit enhancement be considered as an element of a QRM, we have also included an analysis of the CoreLogic data that compares the performance of loans with insurance to comparable high combined loan to value ratio loans that were originated using a simultaneous second lien in lieu of mortgage insurance (see Attachment B). Again, the data is clear. Loans with MI experience significantly lower rates of default and higher cure rates than loans with simultaneous seconds. Incentives for private credit enhancement are critical to re-establishing the primacy of private capital in our housing finance system.

Together, these analyses demonstrate that loans that satisfy the QRM definition will perform well without imposing additional restrictions such as minimum down payments or reliance on FICO scores that would severely limit access to credit for low-to-moderate income borrowers, borrowers with nontraditional credit and other traditionally underserved markets. We believe the framework provided for using the CoreLogic data provides a strong foundation for the agencies to develop a QRM definition that meets the statutory intent for the exemption. We will be conducting additional analysis on this data to identify ways to provide flexibility to these standards through traditional underwriting methodologies that includes examination of compensating factors, while maintaining appropriate limits on the layering of risks. Moreover, we believe the QRM should not be a static definition. As additional data and analysis is provided,
we would support efforts to include additional products and features in the QRM definition whenever data demonstrate sound underwriting performance. We urge the agencies to draw the QRM definition broadly enough to support the nascent housing recovery and ensure access to mortgage credit in underserved markets, while remaining true to high quality, empirically sound underwriting and product standards.

As you are aware, Title XIV of the Dodd-Frank Act also sets forth a definition of a “qualified mortgage” that shares some common features with the QRM related to reducing the risk of default. We believe that where overlap exists between the two terms, regulators should strive to use common definitions and standards. By relying on common standards whenever possible, compliance risks are reduced and processing efficiencies are improved, resulting in cost savings that will benefit borrowers, originators and investors. We urge the agencies and the Bureau of Consumer Financial Protection to coordinate during the Title XIV rulemaking process to ensure this result.

We recognize that the time frame in which you are operating is extremely tight. We welcome the opportunity to address any questions or comments that you might have on the analyses we have provided. The work you are undertaking is of the utmost importance to restoring a strong and stable housing market, and we would be pleased to contribute our experience and insights throughout the process. On behalf of the undersigned, please contact either Glen Corso (phone: 571-357-1036) or Pete Mills (phone: 571-357-1034) if we may be of further assistance.

Very truly yours,

Community Mortgage Banking Project
Community Mortgage Lenders of America
Essent Guaranty, Inc.
Genworth Financial, Inc.
Mortgage Guaranty Insurance Corporation
Radian Guaranty Inc.
Republic Mortgage Insurance Company
The PMI Group, Inc.

cc: The Honorable Timothy F. Geithner
    Secretary of the Treasury
Study Concept Summary

Genworth is pleased to report a more thorough examination of the differences in insured loan versus piggy back loan performance. The original study focused on 30+ delinquencies over four origination years with cuts by origination year, CLTV, and FICO, and two geographic cuts. The sub group combination differences were then weighted by the overall volume of both insured and piggy-back loans in each segment, and then rolled up to display the relative differences in performance given the specific segmentation. Overall, that study suggested that piggy-back loans performed 55% worse than insured loans with similar characteristics.

This revised study now focuses on ever 90+ delinquency rates and the cure rates on loans ever 90 days delinquent. The new study adds an additional origination year, 2003, and more importantly, adds additional characteristic cuts such as document type, loan purpose, and expands the geographic breaks to the nine US Census regions. The overall number of possible combination sets therefore increases nearly 20 fold going from 256 combination segments to 5,040 in this expanded study. This greater degree of detail should have the effect of removing the effects of differences in the distributions of insured loans relative to piggy-back loans. Theoretically, increasing the degree of segmentation should move the overall weighted ratio of performance directionally from the 1.55 in the former study closer to 1.0.

The new study also differs from the former in that the older study used the total volume of both the insured and piggy-back loans to weight the ratios of each identified segment. However, with a 20 fold increase in segmentation, and because piggy-back loans were smaller in volume than insured loans, some segments had extremely low piggyback volumes where it would be entirely possible for all or none of the loans to be delinquent. Consequently, the use of total volume weights (piggyback plus insured) would distort the effects of differences in the distribution of piggy-back loans. For instance, for the 2003 originations 100 CLTV loans accounted for 48.9% of both the insured and piggy back volume for 2003. However, Piggy-back loans with 100% CLTV were only 17.8% of the 2003 piggy volume. Using the total volume would over-weight CLTV 100 ratios, whereas using the piggy-back volume would put the relative difference in 100 LTV performance in a more appropriate perspective.

The other major component of this updated study is the inclusion of an analysis of the cure rates on loans ever 90 days delinquent. The study will show that even for segments where there is little difference in ever 90+ delinquency rates, MI insured loans exhibit significantly higher cure rates, thereby affecting the ultimate foreclosure rates on such segments. The expertise and willingness of MIs to work with delinquent insured borrowers plays a major role in reducing the real risk of default on high LTV loans.

Study Composition

<table>
<thead>
<tr>
<th>Total Volumes Of Originations</th>
<th>Piggy-Back Volume</th>
<th>Insured Volume</th>
<th>Total Volume</th>
<th>$849.5 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Numbers of Loans</td>
<td>1,045,328</td>
<td>3,872,318</td>
<td>4,917,646</td>
<td></td>
</tr>
</tbody>
</table>

Expanded Study On Ever 90 Days Delinquent And Subsequent Cure Rate:

| 5 Origination Years          | 2003 - 2007       |
| 2 Documentation Types: Full Docs, Low or No Docs |
| 2 Loan Purpose Categories: Purchase, Refinancing ( Other was excluded) |
| 4 CLTV Ranges : 80.1 to 85, 85.1 to 90, 90.1 to 95, GT 95 |
| 7 FICO Ranges : <620, 620-659, 660-699, 700-719, 720-739, 740-759, 760+ ( No FICOs were excluded) |
| 9 US Census Regions          |

Number of Combination Segments = 5x2x2x4x7x9 = 5,040

Original Study On 30+ Delinquency Rates

| 4 Origination Years          | 2004 - 2007       |
| 4 CLTV Ranges : 80.1 to 85, 85.1 to 90, 90.1 to 95, GT 95 |
| 8 FICO Score Ranges          |
| 2 Market Segments : Distressed States FL,NV,CA,AZ,MI, All Others |

Number of Combination Segments = 4x4x8x2 = 256

19.7 Fold Increase In Segmentation
Data And Methodology

Genworth utilized the servicing data set of Corelogic which has collected highly detailed loan level loan performance information from several large major servicing companies. Piggyback loans are identified as first lien loans with an LTV of 80% and a CLTV greater than 80%. Insured loans are identified by the coding of an insurance provider, whether it be a private mortgage insurer or FHA or VA. Our study focused on loans with CLTV greater than 80%, originated from 2003 through 2007. The sample selected totals 4,917,646 loans of which 3,872,318 are insured high LTV loans, and 1,045,328 are first lien structured or piggyback loans. The overall volume totaled $0.85 trillion.

The previous study focused on loans that were currently deliquent 30+ days and loans that had terminated in default. This study takes the analysis much farther. This study reviewed the monthly status of all 4.9 million loans in the sample to see which loans were ever 90 days delinquent, and then follows the monthly status reports until the loan either cures or goes to foreclosure. Consequently, this study evaluates both the performance of the loans and also permits a review of actual cures of previous delinquencies that ultimately resulted in current status for loans still outstanding or successful payoff.

The delinquency rate for the piggyback loans is somewhat understated in that the data set only captures the delinquency rates on first liens. There are likely loans where the 1st lien is still current, but the 2nd lien is delinquent. If these delinquencies were added to the piggyback data, their delinencey rate would be even higher than shown and the differential to insured loans would be even larger.
Insured Loans Performed 47% Better than Piggyback Loans

Once Delinquent 90 Days Or More, Insured Loans Exhibited Cure Rates Nearly 54% Higher Than First Lien Piggybacks
**Current 90+ Day Delinquency Rates By Origination Year**

Weighting Segments By Piggyback Profile

<table>
<thead>
<tr>
<th>Year</th>
<th>Insured</th>
<th>Piggyback</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>3.3%</td>
<td>3.8%</td>
</tr>
<tr>
<td>2004</td>
<td>4.9%</td>
<td>8.2%</td>
</tr>
<tr>
<td>2005</td>
<td>11.9%</td>
<td>16.3%</td>
</tr>
<tr>
<td>2006</td>
<td>11.9%</td>
<td>20.5%</td>
</tr>
<tr>
<td>2007</td>
<td>9.4%</td>
<td>15.7%</td>
</tr>
<tr>
<td>2003-2007</td>
<td>9.4%</td>
<td>15.7%</td>
</tr>
</tbody>
</table>

**Weighted Ratios Of Piggyback Delq Rates To Insured Delq Rates**

Piggyback Current 90+ Rate / Insured Current 90+ Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>1.24</td>
</tr>
<tr>
<td>2004</td>
<td>1.64</td>
</tr>
<tr>
<td>2005</td>
<td>1.96</td>
</tr>
<tr>
<td>2006</td>
<td>1.80</td>
</tr>
<tr>
<td>2007</td>
<td>1.24</td>
</tr>
<tr>
<td>2003-2007</td>
<td>1.65</td>
</tr>
</tbody>
</table>

**Lower Ever 90 Delqs Combined with More Cures Result in Insured Loans Having 65% Less Defaults (90+ & F/C)**
Piggyback 90+ Delinquency Rates Were Significantly Higher For All CLTV Ranges Except For 95 CLTV

Nevertheless, For ALL CLTV Ranges, Including 95 CLTV, Insured Loans Had Significantly Higher Cure Rates
Piggyback Performance Decidedly Worse in Virtually All FICO Ranges

Cure Rates On Insured Loans Solidly Higher By 35% or More Depending On the FICO Range
Evaluation by Documentation & Loan Purpose Shows Insured Loans Clearly Outperform Piggybacks In Each of Segment Roll Ups

Insured Loan Cure Rates Were Substantially Higher in All Of These Roll-Up Combinations
While Ever 90 Delinquent Performance Differences Were Not Uniform Across All Regions,
Such Differences Were Highest In Worse Performing Regions
Cure Rates On Insured Loans Remained Significantly Higher Across All US Census Regions
Appendix - Differences In Distributions Across Key Metrics

**Bar chart titled: Distribution By CLTV**
- PiggyBacks Had Proportionately More 90 CLTV And Less 85 CLTV
- Insured Had Proportionately More >95 CLTV

**Bar Chart titled: Distributions by loan Purpose and Doc type**
- PiggyBacks Had A Higher Percentage Of Purchase Loans (74.9% vs 67.9% for Insured)
- But Also A Higher Percentage Of Low or NO Documentation (66.7% Vs 28.6% for insured)

**Distributions By FICO Range**
- Piggyback Loans Had Higher Average FICO Scores

**Distributions By US Census Region**
- Piggybacks Highly Concentrated In Pacific Region

**Insured Loan Distributions By CLTV BY Origination Year**
- Insured Loans Maintained Relatively Higher Risk Profile Throughout
- Pricing For Risk By LTV Range Remained Constant

**Piggyback Loan Distributions By CLTV By Origination Year**
- Piggybacks In Earlier Years Had Lower Risk CLTV Profile
- Increasingly Riskier Profile Through 2007
Qualified Insured Loan Performance

NON-PERFORMING RATES*

Data Source: CoreLogic

“Qualified” Insured Loans Have Performed Well Through the Downturn

* Non-Performing Rate: (# Loans Currently 90 or more days delinquent + loans that terminated in default) / original number of loans
Historical Performance of Qualified vs Non-Qualified Mortgage Loans

November 2010
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Scope of Project

Utilizing data from the CoreLogic Servicing Database, the Study performed an unbiased comparison of performance statistics between two populations of conventional loans (Qualified and Non-Qualified).

The two populations are compared on an overall basis and by origination year as a way to further examine the findings.

The criteria used for the determination of the Qualified pool is outlined below (the “Qualified Criteria”):

- Debt-To-Income <= 45%;
- 7/1 ARM’s & Greater or Fixed Rate;
- Term <= 360 months;
- No Balloon;
- No Interest Only;
- No Negative Amortization;
- Full Documentation; and
- If the Loans had a LTV >80% it must carry MI
Methodology

- Developed ever-to-date performance statistics utilizing FACIL’s Servicing Database (the “Servicing Database”) complied as of 03/31/2010
- The overall population consists of 37 million conventional loans originated between 2002 and 2008 (the “Loan Population”)
- The Loan Population was then defined into two categories: Qualified and Non-Qualified
- The Qualified Criteria was chosen to most closely match the criteria provided with the data available in the Servicing Database (the “Qualified Pool”; 5.5mm loans)
- The non-qualified population consists of loans where all necessary data points are present, but one or more Qualified Criteria were not met (the “Non-Qualified Pool”; 11.5mm loans)
- The remaining population (the “Qualification Unknown Pool”; 20mm loans), not reported, consists of loans where the necessary data points were not all present and therefore qualification could not be determined
- The Servicing Database does not report the liquidation type. However, the loan status at the time of liquidation is tracked
- Non-performing loans were any loans currently 90+ days delinquent or had defaulted at the time of liquidation
Summary of Results

- 5.5 million of the Loan Population made up the Qualified Pool.
- 11.5 million of the Loan Population made up the Non-Qualified Loan Pool.
- The Qualified Pool performed considerably better than the Non-Qualified population as measured by loans that were 90+days delinquent or defaulted.
- A significant differential holds true across the range of vintages examined.

Qualified Mortgages Outperformed Non-Qualified Mortgages by Over 2:1
About Genworth Financial

Genworth Financial, Inc. (NYSE: GNW) is a leading Fortune 500 global financial security company. Genworth has more than $100 billion in assets and employs approximately 6,000 people with a presence in more than 25 countries. Its products and services help meet the investment, protection, retirement and lifestyle needs of more than 15 million customers. Genworth operates through three segments: Retirement & Protection, US Mortgage Insurance and International. Its products and services are offered through financial intermediaries, advisors, independent distributors and sales specialists. Genworth Financial, which traces its roots back to 1871, became a public company in 2004 and is headquartered in Richmond, Virginia. For more information, visit Genworth.com. From time to time Genworth releases important information via postings on its corporate website. Accordingly, investors and other interested parties are encouraged to enroll to receive automatic email alerts and Really Simple Syndication (RSS) feeds regarding new postings. Enrollment information is found under the "Investors" section of Genworth.com.