Meeting Between Staff of the Federal Reserve Board and Representatives of U.S. Mortgage Insurers
August 19, 2026

Participants: Anna Lee Hewko, Brian Chernoff, Marco Migueis, Cecily Boggs, Michael Suher, Mark Buresh, and Gillian Burgess (Federal Reserve Board)

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Summary: Staff of the Federal Reserve Board met with representatives of U.S. Mortgage Insurers and member companies (collectively, USMI) regarding the agencies' standardized approach to risk-weighted assets notice of proposed rulemaking (standardized proposal) and the agencies' Basel III notice of proposed rulemaking (Basel III proposal). The USMI representatives discussed the role of private mortgage insurance in the U.S. financial system and provided suggestions for how private mortgage insurance might be recognized in the capital rule.

Attachments

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Incorporating Private Mortgage Insurance into Risk-Sensitive Bank Capital Frameworks



August 2026

Rationale for Eligible Mortgage Insurer Criteria

Draft CFR Language for MI-Adjusted Exposure LTV, submitted June 18, 2026

(c)(4)(i) – Base counterparty creditworthiness evaluation. The covered banking organization shall assess the entity's counterparty creditworthiness, both initially and on an ongoing basis, consistent with the evaluation principles of Federal Reserve SR Letter 99-3 (Jan. 26, 1999), Attachment I, which identify capital strength, leverage, on and off-balance sheet risk factors and contingencies, liquidity, operating results, and the ability to manage the risks inherent in the counterparty's line of business as the criteria for evaluating counterparty creditworthiness.

- Federal Reserve SR Letter 99-3 (Jan. 26, 1999), Attachment I, identifies six criteria for evaluating counterparty creditworthiness: capital strength, leverage, on and off-balance sheet risk factors and contingencies, liquidity, operating results, and ability to manage risks inherent in the company's line-of-business risk.
- A bank's eligibility determination is a substantive, examiner-reviewable creditworthiness assessment.
- SR 99-3's capital strength and leverage criteria require the bank to assess the insurer's actual balance sheet position, not merely its regulatory status as a licensed insurer.
- The ongoing evaluation requirement ensures that a deteriorating insurer cannot retain eligible status based on a prior assessment.

(c)(4)(ii) – Investment-grade determination. Based on the assessment conducted under paragraph (c)(4)(i), the covered banking organization shall determine that the insurer has adequate capacity to meet its financial commitments under the coverage for the projected life of the exposure and that full and timely repayment of its obligations is expected consistent with the investment-grade standard of 12 CFR §§ 3.2, 217.2, and 324.2. This determination shall not be based solely on ratings assigned by Nationally Recognized Statistical Rating Organizations, consistent with Section 939A of the Dodd-Frank Act; however, a covered banking organization may use one or more NRSRO financial strength ratings assigned to the writing company as one input among others in making this determination.

- The Banking Agencies' regulatory definition of "investment grade" is that the entity to which a bank is exposed – such as a monoline MI – "has adequate capacity to meet financial commitments for the projected life of the asset or exposure." The definition continues: "An entity has adequate capacity to meet financial commitments if the risk of its default is low and full and timely repayment (sic) is expected."
- This determination follows and builds on the SR 99-3 evaluation under paragraph (c)(4)(i).
- Adequate capacity to meet commitments for the projected life of the exposure requires that claims-paying capacity be robust through the same stress scenarios that cause mortgage losses. An insurer that fails in a housing stress scenario is, by definition, not investment grade. A thinly capitalized insurer cannot credibly satisfy the low default risk, full and timely repayment expected standard.
- Section 939A of the Dodd-Frank Act prohibits sole reliance on NRSRO ratings. However, NRSRO financial strength ratings assigned to the writing company are permitted as one input among others, consistent with OCC Bulletin 2012-18 and Federal Reserve SR Letter 12-15. This

ensures the bank conducts its own substantive assessment rather than mechanically accepting a rating agency conclusion.

(c)(4)(iii)(A) – is organized and operates exclusively as a monoline mortgage guaranty insurance company, without engaging in any other line of insurance or financial services, and is licensed as a mortgage guaranty insurer in its domiciliary state and subject to examination by its domiciliary state insurance regulator

- The monoline requirement reflects the charter structure under which state insurance regulators license monoline mortgage guaranty insurers. This structure is contemplated by the NAIC Mortgage Guaranty Insurance Model Act (the "Model Act"), in its current and prior versions, as adopted in some form by all active MI company domiciliary states (Pennsylvania, North Carolina, and Wisconsin) as the monoline MI prudential oversight framework.
- By charter, a monoline mortgage insurer cannot engage in any other line of insurance or financial services and is prohibited by state regulation from investing in mortgage-secured instruments other than U.S. government-backed securities. This structural prohibition eliminates asset-side wrong-way risk.
- State licensing as a mortgage guaranty insurer invokes a comprehensive regulatory and accounting framework unique to the monoline MI business model, including:
    - **Contingency reserves:** A counter-cyclical capital reserve that is 50% of net earned premium that is legally restricted from withdrawal for 10 years except during severe loss periods. Under statutory accounting, contingency reserves are booked as a liability and released to surplus after the 10-year holding period; under GAAP they flow directly to equity and are not reflected as a separate liability. This is the primary mechanism by which MI companies build capital during good times for deployment during bad ones.
    - **Other required reserves:** MI companies are required to establish and maintain reserves for reported defaults (Case Reserves), defaults that have occurred but not yet been reported (Incurred But Not Reported Reserves, or "IBNR"), the cost of adjusting and paying claims (Loss Adjustment Expense Reserves, or "LAE"), and expected future losses on in-force policies where premiums will be insufficient to cover anticipated losses (Premium Deficiency Reserves). These requirements produce a comprehensive liability structure that does not exist for general financial guarantors or other insurers.
    - **Investment limitations:** State insurance regulations and PMIERs both restrict monoline MI companies relative to investing in mortgage-secured indebtedness that is correlated with the very risks they are insuring. Non-agency residential mortgage-backed securities (RMBS) are non-admitted assets under the Model Act and state regulations. While a monoline MI company may hold such securities, they do not count toward the insurer's admitted capital base – and under PMIERs they receive no credit as Available Assets – ensuring that the insurer's capital position cannot be impaired by the type of mortgage credit risk it is insuring.
    - State examination authority provides an independent, ongoing governmental oversight layer that banks can rely on as a complement to their own annual eligibility determination.

(c)(4)(iii)(B) – maintains a risk-to-capital ratio, calculated as net risk in force divided by the sum of capital, surplus, and contingency reserves, that does not exceed 17.9-to-1

- The 17.9-to-1 threshold is the risk-to-capital ratio at which the PMIERs $400 million minimum Available Asset floor becomes the binding capital constraint, equating to minimum capital of approximately 5.6% of net risk in force (RIF).
- This threshold overlays the state statutory ceiling of 25-to-1 that requires an insurer to hold 4% of net RIF. The proposed 17.9-to-1 ceiling requires an additional 40% capital cushion above state regulatory minimums and reflects the rigorous standard that PMIERs has established as the operative capital benchmark for the industry. The 17.9-to-1 ceiling would become the binding risk-to-capital constraint between state regulation of private MI and counterparty standards.
- The GSE-eligible MI industry is operating far below the 17.9-to-1 threshold today – in the range of less than 10-to-1 – for the reasons described below:
    - **Rating agency requirements reinforce conservative capital management.** Maintaining A-level financial strength ratings demands capital cushions materially above regulatory minimums. An MI company allowing its risk-to-capital ratio to drift higher would ultimately face rating pressure and potential downgrade, impairing its ability to write new business.
    - **Reinsurance and capital markets strategies structurally reduce the ratio.** When an MI company cedes risk through reinsurance or capital markets transactions, it reduces net RIF – the numerator of the risk-to-capital ratio. Active use of risk transfer mechanisms is a deliberate capital management strategy that simultaneously manages PMIERs' MRA and lowers the risk-to-capital ratio.
    - **Investor and market expectations have established an informal standard well above the regulatory minimum.** Publicly traded MI companies are evaluated by equity investors, debt investors, and analysts on PMIERs' capital adequacy metrics and risk-to-capital ratios as primary financial health metrics. The market has effectively priced in capital discipline that is substantially more conservative than regulatory minimums, and companies manage accordingly.

(c)(4)(iii)(C) – maintains readily available assets of not less than $400 million in excess of the minimum capital required by applicable state insurance law

- The $400 million figure is sourced from PMIERs, where it functions as the floor on Minimum Required Assets.
    - Under PMIERs, it is the specified floor on Minimum Required Assets an approved insurer must satisfy regardless of the size of its in-force book, as set forth in PMIERs Section 703.
    - Under the proposed criteria, the $400 million functions as a minimum liquidity floor above the state-law-implied capital minimum, which is ratio-based rather than dollar-denominated.
- The true buffer aspect introduced here ensures that a startup MI holds enough capital as it ramps up, reducing the risk of insolvency during an early-stage stress event. While the $400 million buffer applies to the "minimum capital required by applicable state insurance law," the 17.9-to-1 threshold in (c)(4)(iii)(B) becomes the binding capital constraint for larger, more mature companies.

  - For example, under state insurance law, minimum required capital is a ratio-based metric – not a risk-based metric as it is under PMIERs – that is derived from the maximum 25-to-1 risk-to-capital threshold. If an insurer has $1 billion in policyholders' position – the sum of capital, surplus, and contingency reserves – it would be able to support $25 billion in net RIF before breaching the regulatory 25-to-1 risk-to-capital threshold.
  - However, overlaying the requirement of a $400 million buffer above the minimum required capital limits the eligible MI to $15 billion in net RIF supported by $600 million in capital plus the $400 million buffer – a 15-to-1 net risk-to-capital ratio.
  - The criterion ties the buffer to the state regulatory framework because MI companies publicly report RIF, policyholders' position, and risk-to-capital ratios, enabling banks to verify compliance. The buffer ensures new entrants reach a level of capitalization at which both criteria (c)(4)(iii)(B) and (c)(4)(iii)(C) are satisfied as the book scales.

- Additionally, each MI company certifies the figures below to the GSEs each quarter and publicly discloses them, enabling banks to also include them in their counterparty evaluation:
  - **Available Assets:** The liquid assets an approved MI company holds that are eligible to pay claims. This includes cash, rated bonds subject to haircuts, and accrued income, net of debt obligations and other deductions.
  - **Minimum Required Assets (MRA):** The minimum dollar amount of Available Assets an approved MI company must hold, calculated quarterly by applying loan-level risk factors from the PMIERs Exhibit A tables to each insured loan in the company's in-force book, subject to an absolute floor of $400 million regardless of book size.
  - **Excess Available Assets:** The dollar amount by which an approved MI company's Available Assets exceed its Minimum Required Assets, representing the company's capacity to absorb additional stress before approaching a capital deficiency.
  - **Sufficiency Ratio:** Available Assets divided by Minimum Required Assets, where 100% means exactly meeting the minimum and anything above 100% represents excess cushion.

- Each active MI company holds more than the $400 million floor required under the PMIERs' MRA calculation, as well as amounts that exceed the $400 million buffer if applied as set forth in this section. USMI member companies collectively hold nearly $9.3 billion in excess of PMIERs' Minimum Required Assets, representing a 165% sufficiency ratio as of the most recent reporting period.

(c)(4)(iii)(D) – has demonstrated, through an annual stress test conducted under methodologies equivalent to or more severe than the Federal Reserve's DFAST/CCAR severely adverse scenario, including a scenario incorporating home price declines and unemployment rate increases at least equal in severity to those experienced from 2007 through 2012 (a "Great Financial Crisis Replay Scenario"), that it maintains sufficient capital to meet policyholder obligations and remain a going concern

- This criterion requires the insurer to demonstrate, through an annual stress test, that it can continue paying claims and remain a going concern under the DFAST/CCAR severely adverse scenario and a scenario at least as severe as the worst housing market stress in the modern dataset. An insurer that cannot pass this test is disqualified regardless of how it performs on other criteria.

- The requirement to perform such stress tests is already operational within the monoline MI industry's prudential oversight framework. Under the NAIC's Risk Management and Own Risk and Solvency Assessment (ORSA) Model Act, effective January 1, 2015, all insurers writing more than $500 million in annual direct written premium – a threshold every active PMIERs-eligible MI company meets – are required to conduct an ORSA annually and submit a confidential ORSA Summary Report, including stress test results, to their domiciliary state regulator.
    - An ORSA is an internal process through which insurers evaluate their current and prospective risk management and solvency positions under stress scenarios, considering all reasonably foreseeable and relevant material risks – including underwriting, credit, market, operational, and liquidity risks – that could affect an insurer's ability to meet policyholder obligations. For a mortgage guaranty insurer, the material stress scenario is the Great Financial Crisis replay scenario this criterion requires. MI companies are already modeling this scenario annually and documenting the results for their state regulator.
    - The ORSA Summary Report is confidential, submitted to the lead state regulator, and reviewed by state insurance examiners annually. Under this criterion, results are made available to the bank upon request, providing documented evidence for examination purposes.
    - ORSA goes beyond minimum capital compliance. ORSA's explicit purpose under the NAIC Model Act is to assess whether the insurer's capital is adequate relative to its actual risk profile – not merely whether it meets the state statutory minimum.
    - The proposed DFAST/CCAR-equivalent standard builds on ORSA but makes the severity benchmark explicit. ORSA permits insurers to define their own stress scenarios; the proposed criterion requires that at minimum one scenario must be at least as severe as the Federal Reserve's DFAST/CCAR severely adverse scenario including a GFC replay. This ensures comparability across MI companies and direct calibration to the same stress benchmark the Banking Agencies apply to bank policyholders themselves.

(c)(4)(iii)(E) – is approved to insure residential mortgage loans acquired by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation pursuant to their respective Private Mortgage Insurer Eligibility Requirements and is in compliance with the financial requirements thereof, as confirmed by the most recent PMIERs sufficiency certification published by the Federal Housing Finance Agency

- PMIERs is a loan-level, risk-factor-weighted capital standard verified quarterly by the GSEs under FHFA oversight. It requires loan-level, risk-factor-weighted capital calibrated to LTV, credit score, loan age, and geographic concentration of each insurer's in-force book. An insurer that satisfies PMIERs holds capital specifically calibrated to the risk profile of the loans being insured.
- The GSEs publish a list of approved insurers, and inclusion confirms compliance with all PMIERs financial and operational requirements.
- PMIERs' approval is 1 of 6 criteria because it is intended as confirmatory evidence of financial soundness within a broader framework anchored to the Banking Agencies' own standards. An insurer that satisfies PMIERs but fails the SR 99-3 or investment-grade standard would not qualify. This structure directly addresses the agencies' concern about relying on a single third-party standard.

(c)(4)(iii)(F) – is not subject to any outstanding regulatory order, directive, or corrective action requiring remediation of a capital deficiency, suspension of new business writings, or placement in supervision or receivership by any state insurance regulatory authority

- This is a binary, immediately observable criterion: an insurer under a state regulatory order requiring capital remediation, new-business suspension, or placement in supervision or receivership has already been found by its own regulator to be financially impaired.
- An insurer in regulatory distress cannot satisfy the investment-grade standard of paragraph (c)(4)(ii). A regulator-identified capital deficiency is incompatible with "low default risk and full and timely repayment expected." This criterion ensures that even if a bank's annual eligibility determination has not yet identified an emerging problem, a formal state regulatory action provides an automatic, immediate disqualifying event.

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Summary of Recommendations

1. Recognize private mortgage insurance (MI) coverage provided by an "eligible mortgage insurer" in the calculation of a mortgage's exposure-based loan-to-value (LTV) ratio for purposes of assigning an LTV-based risk weight, with capital recognition calibrated to the depth of private MI coverage and subject to a minimum risk weight of 35% for high LTV mortgages.
2. Define an "eligible mortgage insurer" as one with documentary evidence of its capacity to meet its financial commitments for the projected life of the exposure (see Appendix for additional information).
3. Apply a reasonable haircut to the reduction in private MI-adjusted exposure LTV that does not exceed the 14.2% credit enhancement counterparty haircut applied to private MI coverage under the FHFA's Enterprise Regulatory Capital Framework (ERCF).
4. Modify the "Eligible Guarantor" definition to permit highly rated, well-capitalized private MI companies to participate more fully in bank credit risk transfer (CRT) transactions, bringing additional private capital into the U.S. banking system.

Actuarial Analysis of 90+ Million Loans

To quantify the historical benefit of private MI, the global actuarial firm Milliman, analyzed GSE mortgage losses across LTV cohorts from 2000 to 2025, encompassing over 90 million loans and $20.3 trillion in original unpaid principal balance (UPB).

The analysis found:

1) Realized credit losses increased with original LTV across the analyzed cohorts.

2) MI reduced net realized loss severity on insured high LTV loans to below the gross loss severity observed in the 60.01–80% LTV benchmark cohort.

3) Observed MI claim realization remained high during the crisis-vintage stress period, with paid claims of 97% of contractual coverage.

4) Net severity outcomes within the >80% LTV population decreased as the level of MI coverage increased.

Milliman, “Calculating the historical benefit of private mortgage insurance: An empirical assessment of realized GSE mortgage losses across LTV cohorts from 2000 through 2025” (May 2026).

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Crisis Vintage Loans (2005-2009)

TABLE 2: HISTORICAL LOAN PERFORMANCE BY ORIGINAL LTV COHORT: CRISIS VINTAGE (2005–2009)

Original LTV %...	<50	50-60	60-80	80-90	90-100
A. Credit event rate (% original UPB)	**0.30%**	**0.98%**	**3.19%**	**8.15%**	**10.84%**
B. Gross loss severity (% credit event UPB)	40%	45%	52%	57%	57%
C. Net loss severity (% credit event UPB)	**40%**	**45%**	**52%**	**37%**	**29%**
D. Loss reduction due to MI = (1 - C / B)	*0%*	*0%*	*0%*	*35%*	*50%*
E. Gross loss (% original UPB) = (A × B)	0.1%	0.4%	1.7%	4.6%	6.2%
F. Net loss (% original UPB) = (A × C)	**0.1%**	**0.4%**	**1.7%**	**3.0%**	**3.1%**

Source: Milliman analysis of combined Fannie Mae and Freddie Mac single-family loan performance datasets; full underlying figures are presented in Exhibit 10.

Milliman, "Calculating the historical benefit of private mortgage insurance: An empirical assessment of realized GSE mortgage losses across LTV cohorts from 2000 through 2025" (May 2026).

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Crisis Vintage Loans (2005-2009)

TABLE 1: HISTORICAL LOAN PERFORMANCE BY ORIGINAL LTV AND MI COVERAGE COHORT: CRISIS-VINTAGE ORIGINATIONS (2005–2009)

	Original LTV ratio by MI coverage						
Original LTV %...	<50	50-60	60-80	80-100			
MI coverage %...	No coverage			0-12	12-25	25-30	>30
A. Credit event rate (% original UPB)	**0.3%**	**1.0%**	**3.2%**	**6.6%**	**8.7%**	**11.1%**	**16.0%**
B. Gross loss severity (% credit event UPB)	40%	45%	52%	57%	56%	58%	61%
C. Net loss severity (% credit event UPB)	**40%**	**45%**	**52%**	**46%**	**33%**	**29%**	**28%**
D. Loss reduction due to MI = (1 - C / B)	*0%*	*0%*	*0%*	*19%*	*41%*	*50%*	*54%*
E. Gross loss (% original UPB) = (A × B)	0.1%	0.4%	1.7%	3.7%	4.9%	6.4%	9.8%
F. Net loss (% original UPB) = (A × C)	**0.1%**	**0.4%**	**1.7%**	**3.0%**	**2.8%**	**3.2%**	**4.5%**

Source: Milliman analysis of combined Fannie Mae and Freddie Mac single-family loan performance datasets; full underlying figures are presented in Exhibit 11.

Milliman, "Calculating the historical benefit of private mortgage insurance: An empirical assessment of realized GSE mortgage losses across LTV cohorts from 2000 through 2025" (May 2026).

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Post-GFC Enhancements

Private MIs are required to be structured as monoline insurers that are exclusively dedicated to absorbing single-family mortgage credit risk, but the industry has a diversified capital base. The business model is built to serve borrowers, lenders, investors, the GSEs, and taxpayers in all economic cycles. The private MI industry is well capitalized and USMI members collectively hold $9.4 billion in excess of PMIERs granular loan-level, risk-based capital requirements, representing a 67% capital buffer. Further, private MI companies' S&P Risk-Based Capital Adequacy levels are above AAA sufficiency.

Since 1957, the private MI industry has never stopped writing new business, insuring loans, or paying valid claims.

INDUSTRY ENHANCEMENTS TO MAKE PRIVATE MI STRONGER AND MORE RELIABLE

PAST		PRESENT
Exposure-based capital (Statutory)	▶	Risk-based capital (updated PMIERs)
Relatively static pricing with rate cards	▶	More granular, risk-based, and dynamic pricing
Manage risk through credit policy	▶	Manage risk through credit policy and pricing
Focus on avoiding adverse credit selection	▶	Proactive portfolio selection based on economic value
"Buy-and-Hold" risk-taking	▶	Active risk management

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Post-Crisis Enhancements

- PMIERs: private MIs are subject to a robust set of capital, financial, operational, and quality standards, including granular loan-level, risk-based capital requirements subject to an aggregate capital floor of 5.6% of performing primary adjusted risk in force (RIF). USMI members currently hold $9.4 billion in excess of the minimum requirements, representing a 67% capital buffer. Investment portfolios comprise highly liquid and rated assets that demonstrate a diverse capitalization.

- Master Policy: private MIs' contract for claims paying guidelines and procedures underwent significant changes in 2013 to increase clarity of coverage and streamline the payment of claims to ensure that private MI results in reliable and predicable payments to lenders and the GSEs. A USMI-developed common Master Policy became effective on March 1, 2020.

- Rescission Relief Principles: first published in 2013 and updated in 2017 to align with the GSEs' representations and warranties framework. Includes automatic relief after 36 timely payments and early relief after 12 timely payments with a full file review.

- Underwriting: in addition to the Dodd-Frank Act mortgage product restrictions and the CFPB's Ability-to-Repay/Qualified Mortgage (ATR/QM) Rule, PMIERs' loan quality requirements have resulted in stronger controls that ensure quality loan manufacturing and more consistent detection of fraud and data inconsistencies.

- Enhanced Risk-Based Pricing: private MIs have migrated from static rates cards to granular risk-based dynamic pricing engines to more precisely underwrite, price, and manage single-family mortgage credit risk.

Post-Crisis Enhancements: MI Credit Risk Transfer (MI-CRT)

While the coverage that private MIs provide is monoline, the industry's capital base is sophisticated and diverse. A primary driver of this is the industry's evolution from a "Buy-and-Hold" business model before the GFC to the current "Buy-and-Actively Manage" model.

MI-CRT allows private MIs to distribute mortgage credit risk to the global financial markets while preserving their role in underwriting. Through the combination of capital markets-based and traditional reinsurance executions, the industry has reduced volatility and exposure of mortgage credit risk in the housing finance system.

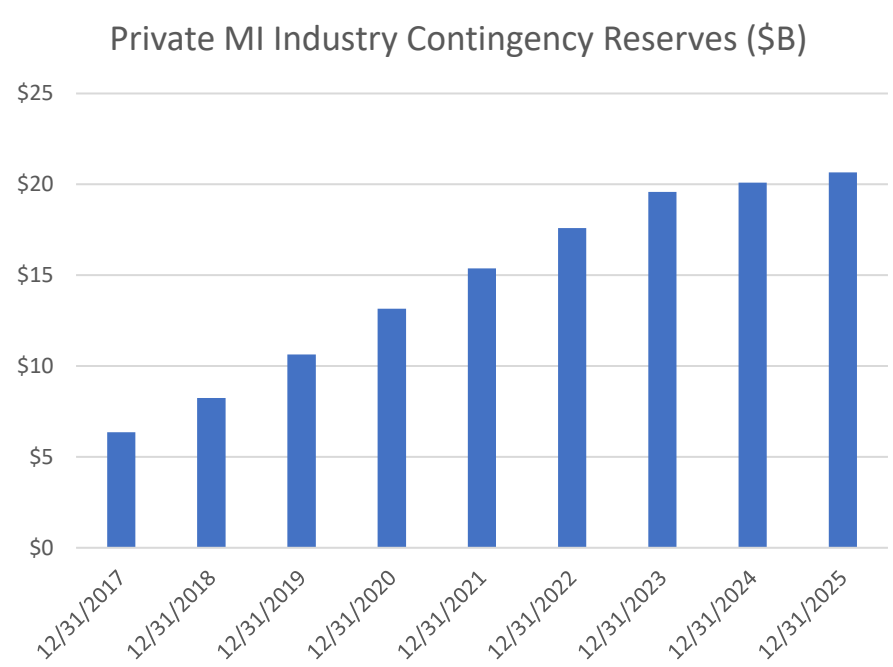
Since 2015, private MI companies have transferred $92.4 billion in risk – including forward contracting coverage for future new insurance written – to the global reinsurance and capital markets across 145 transactions:

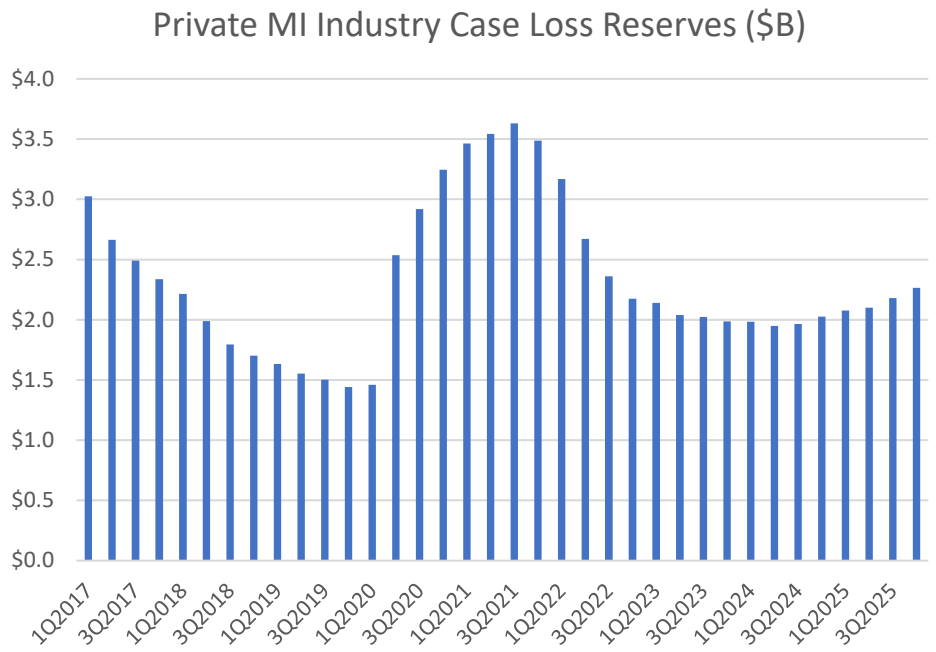
- In the reinsurance market, private MIs have executed 85 quota share (QSR) and excess of loss (XOL) transactions ceding $69.1 billion of risk.
- The industry expanded its risk management and transfer tools in 2015 with the introduction of mortgage insurance-linked notes (MILNs). Since then, private MIs have issued 60 deals, transferring $23.3 billion of risk.

Contingency & Loss Reserves

- Contingency Reserves: Private MIs must contribute 50% of net earned premiums to a contingency reserve that cannot be withdrawn for a period of 10 years except as permitted by state insurance regulators.

- Loss Reserves: Private MIs must establish loss reserves to pay claims that have already happened or are expected to happen. Mortgage defaults are slow-moving and observable; on average, claims are presented 18-48 months after initial delinquency, resulting in strong visibility into future losses and minimizing the risk of sudden losses.





Private MI Company Earnings Releases, Financial Supplements, and 10-K/Qs.

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Financial Strength Ratings

- Financial Strength: Each private MI company is a highly rated institution according to financial strength ratings assessed and issued by the top nationally recognized statistical rating organizations (NRSROs) and have been upgraded in recent years. Private MI companies' S&P Risk-Based Capital Adequacy levels are above AAA sufficiency.

Current Financial Strength Ratings of Active Private MI Companies (June 2026)

Private MI Company	Moody's	S&P	Fitch	AM Best
Arch MI Company	A1	AA-	A+	
Enact MI Company	A2	A-	A	A-
Essent Guaranty, Inc.	A2	A-		A
MGIC	A2	A-		A
National MI Corporation	A3	A-	A	
Radian Guaranty Inc.	A3	A-	A	

Stable
Positive

Financial Strength Ratings for Flagship Private MI Subsidiary.

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Counterparty Haircut

- The NPRs solicited feedback on whether private MI should be partially recognized for calculating LTV and posited 50% as an example.
- Private MIs are reliable counterparties, continuously paid claims during and after the GFC, and no private MI company received a government bailout.
- During the GFC, the industry had a claim realization rate of 97% and the industry has paid $62 billion in claims since 2008. Since the GFC, the industry has adopted significant enhancements which have made it stronger and more resilient.
- A claim realization rate of less than 100% is not exclusively tied to rescissions or denials. Other factors include MI claim obligations being fully satisfied without exhausting 100% of contractual coverage and the impacts of cancellations / terminations.
- We recommend that the Agencies apply a reasonable haircut, not to exceed 14.2%, for private MI provided by eligible mortgage insurers.
- Under the ERCF, the counterparty haircut applied to the credit enhancement multiplier the GSEs receive for loans with private MI is driven by a Counterparty Rating, ranging from 1 to 8.
- Analysis suggests that the six active private MI companies are assigned a Counterparty Rating of 4 and are “approved insurers” with high mortgage concentration risk, translating to a 14.2% haircut.

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Examples Using Standardized Approach Risk Weights & Standard MI Coverage Levels for High LTV Loans (Each Base RW Lowered by 5% for Category I and II Banks)

	50% OLTV	60% OLTV	80% OLTV	85% OLTV	90% OLTV	95% OLTV	97% OLTV
Base Risk Weight (Non-Category I and II Banks)	25%	30%	35%	45%	45%	55%	55%
Standard Private MI Coverage	n/a	n/a	n/a	12%	25%	30%	35%
Maximum Recommended Haircut Applied to MI Coverage	n/a	n/a	n/a	-14.2%	-14.2%	-14.2%	-14.2%
MI-Adjusted Exposure LTV for Assigning Risk Weight	50.0%	60.0%	80.0%	76.2%	70.7%	70.5%	67.9%
Final Risk Weight (Non-Category I and II Banks)	25%	30%	35%	35%	35%	35%	35%

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Appendix



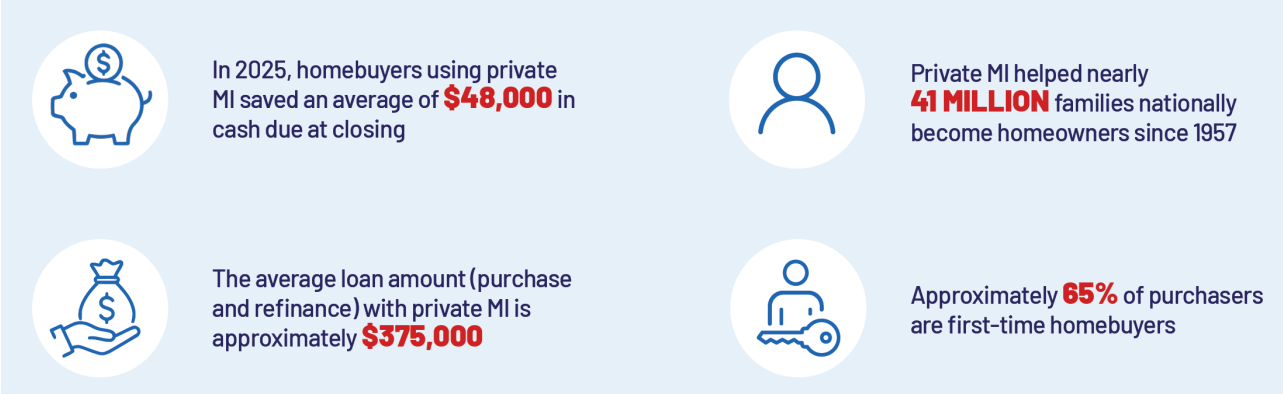
Private MI Serves First-Time Homebuyers & Working Families

Amassing a large down payment is consistently cited as one of the biggest hurdles to homeownership. It could take decades for a working-class family to save for a 20% down payment and closing costs. In any given year, 30-40% of purchase originations support homebuyers with low down payments and, with private MI, borrowers can qualify for affordable and sustainable mortgage financing with down payments as low as 3%.

Private MI is the only scalable form of credit enhancement, allowing thousands of lenders of all sizes to support low down payment homebuyers.

In 2025:

- Private MI helped over 800,000 homeowners purchase a home or refinance an existing mortgage, representing more than $311 billion in mortgage originations
- Nearly 65% of purchase loans with private MI were for first-time homebuyers
- 37% were borrowers with incomes below $100,000
- Saved homebuyers more than $35 billion in cash down payment costs



Sources: GSE Aggregate Data, HMDA Data, and PMI Company Data.

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Why Calculating LTV with Private MI Matters

"While the Agencies appropriately recognize PMI as improving underwriting quality, the standardized LTV framework fails to reflect the well-documented reduction in loss severity provided by qualifying PMI (thus resulting in a capital calibration that overstates risk relative to empirical outcomes).

The Agencies' own regulatory framework reinforces this point: the Interagency Guidelines for Real Estate Lending Policies require lending policies to account for the availability of PMI as part of prudent risk management for real estate loans. In contrast, the Proposal's LTV grid assigns risk weights without consideration of PMI. The result is that borrowers pay for risk reduction via PMI premiums but receive limited benefit in the form of lower credit costs, as the bank's capital charge remains unchanged.

Getting this calibration correct is paramount – a framework that acknowledges PMI's risk-mitigating role for safety and soundness purposes but ignores it for capital purposes leaves capital requirements misaligned with the actual risk profile of insured mortgage exposures.

Fifth Third recommends the Agencies explicitly recognize PMI in the LTV calculation, subject to appropriate safeguards that address wrong-way risk, and ensure the capital benefit is commensurate with the actual risk transfer. "

--Fifth Third Bancorp / Fifth Third Bank, NA Comment Letter

(submitted May 15, 2026)

FIFTH THIRD

USMI U.S. MORTGAGE INSURERS

What Others Are Saying

Accordingly, ICBA supports and encourages the Agencies to adjust risk weights for mortgages with PMI for institutions that opt in to the LTV framework. This should include recognizing PMI in the calculation of LTV for risk-weighting purposes, subject to a reasonable haircut. ICBA recommends that any such haircut not exceed the 14.2 percent applied under the FHFA's Enterprise Regulatory Capital Framework ("ERCF") for loans covered by approved insurers with high mortgage concentration risk and a counterparty rating of "4."

ICBA

The LTV ratio calculation in the final rule should recognize adjustments for private mortgage insurance. The recognition of adjustments for private mortgage insurance would further the proposal's objective to formulate more risk sensitive capital requirements as such adjustments would better reflect actual loss exposure. The agencies' Interagency Guidelines for Real Estate Lending Policies allow for the incorporation of mortgage insurance in LTV ratios. The calculation of these ratios for day-to-day credit risk management purposes should align with the calculation for risk-based capital purposes.

bpi BANK POLICY INSTITUTE | American Bankers Association | U.S. Chamber of Commerce | CBA CONSUMER BANKERS ASSOCIATION

The FHLBanks also support the recognition of Private Mortgage Insurance ("PMI") as a significant risk mitigant that should be factored into calculations of risk-weighted assets. We believe the amount of PMI should be included in determining the total outstanding amount of the loan when calculating the LTV ratio, subject to a reasonable haircut. This would better recognize that even during the financial crisis, PMI providers paid a significant number of claims that reduced the overall loss exposure for mortgage investors.

FHLBANKS LENDING THAT POWERS COMMUNITIES

USMI U.S. MORTGAGE INSURERS

What Others Are Saying

Providing recognition of private mortgage insurance credit risk protection in the calculation of LTV ratios for purposes of determining risk weights appropriately balances safety and soundness in the U.S. banking system with borrowers' access to affordable and sustainable low-downpayment mortgage financing. Denying capital credit for the risk protection provided by private mortgage insurance disregards the many post–Global Financial Crisis reforms that strengthened the U.S. mortgage markets.

U.S. CONGRESSMAN
ANDY BARR
REPRESENTING *the* SIXTH DISTRICT *of* KENTUCKY

CONGRESSMAN
BRAD SHERMAN
SERVING CALIFORNIA'S 32ND DISTRICT

NATIONAL HOUSING CONFERENCE

Private mortgage insurance is an important tool for expanding responsible homeownership access. It allows qualified borrowers to obtain mortgage credit with lower down payments while providing first-loss protection to lenders and investors. The agencies recognize private mortgage insurance as a component of prudent underwriting, but the proposed LTV-based risk weight framework does not fully reflect its risk mitigating role for capital purposes…The agencies should recognize private mortgage insurance when calculating LTV for risk-weighting purposes, subject to an appropriate counterparty haircut, to avoid regressively disadvantaging first-time and first-generation homebuyers.

PMI is a valuable tool that has allowed responsible borrowers who cannot afford a large down payment to acquire an affordable home loan. It also protects lenders against losses. While it is true that some PMI providers experienced severe stress during the housing crisis, the industry has since rebounded and significantly improved its financial health. All private mortgage insurers are subject to strict capital standards through the Federal Housing Finance Agency's Private Mortgage Insurer Eligibility Requirements ("PMIERs").

NCSHA

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Proposed CFR Text for Private MI-Adjusted Exposure LTV Framework

Proposed Amendment to §__.31(c)(3)-(6):

(c)(3) Private mortgage insurance.

(i) General rule. Except as provided in paragraph (c)(3)(ii) of this section, a covered banking organization shall not reduce the unpaid principal balance of a residential mortgage exposure to reflect any private mortgage insurance coverage for purposes of calculating the loan-to-value ratio under this paragraph (c).

(ii) MI-Adjusted Exposure LTV. A covered banking organization may apply the MI-Adjusted Exposure LTV to determine a loan's applicable risk weight under this paragraph (c), provided the coverage is primary mortgage insurance that: (A) is issued by an eligible mortgage insurer as defined in paragraph (c)(4) of this section; (B) is structurally and contractually attached to the loan and is not a freestanding contract; (C) travels with the exposure if transferred or sold; and (D) does not result in a risk weight below 35 percent for a loan with an Original Loan-to-Value ratio above 80 percent. The MI-Adjusted Exposure LTV is calculated as the loan Original Loan-to-Value ratio multiplied by one minus the product of the coverage percentage and one minus the counterparty haircut defined in (c)(5) of this section. (e.g., 90% * (1 - (25% * (1 – 14.2%))) = 70.7% MI-Adjusted Exposure LTV.) The MI-Adjusted Exposure LTV ratio shall not be less than zero.

(c)(4) Eligible mortgage insurer. A covered banking organization shall determine that an entity qualifies as an eligible mortgage insurer through the following evaluation:

(i) Base counterparty creditworthiness evaluation. The covered banking organization shall assess the entity's counterparty creditworthiness, both initially and on an ongoing basis, consistent with the evaluation principles of Federal Reserve SR Letter 99-3 (Jan. 26, 1999), Attachment I, which identify capital strength, leverage, on and off-balance sheet risk factors and contingencies, liquidity, operating results, and the ability to manage the risks inherent in the counterparty's line of business as the criteria for evaluating counterparty creditworthiness.

(ii) Investment-grade determination. Based on the assessment conducted under paragraph (c)(4)(i), the covered banking organization shall determine that the insurer has adequate capacity to meet its financial commitments under the coverage for the projected life of the exposure and that full and timely repayment of its obligations is expected consistent with the investment-grade standard of 12 CFR §§ 3.2, 217.2, and 324.2. This determination shall not be based solely on ratings assigned by Nationally Recognized Statistical Rating Organizations, consistent with Section 939A of the Dodd-Frank Act; however, a covered banking organization may use one or more NRSRO financial strength ratings assigned to the writing company as one input among others in making this determination.

Proposed CFR Text for Private MI-Adjusted Exposure LTV Framework, cont.

(c)(4)(iii) Monoline mortgage guaranty insurer criteria. An entity satisfies the eligible mortgage insurer criteria of this paragraph (c)(4) if it meets the requirements of paragraphs (c)(4)(i) and (c)(4)(ii) and additionally satisfies each of the following:

(A) is organized and operates exclusively as a monoline mortgage guaranty insurance company, without engaging in any other line of insurance or financial services, and is licensed as a mortgage guaranty insurer in its domiciliary state and subject to examination by its domiciliary state insurance regulator;

(B) maintains a risk-to-capital ratio, calculated as net risk in force divided by the sum of capital, surplus, and contingency reserves, that does not exceed 17.9-to-1;

(C) maintains readily available assets of not less than $400 million in excess of the minimum capital required by applicable state insurance law;

(D) has demonstrated, through an annual stress test conducted under methodologies equivalent to or more severe than the Federal Reserve's DFAST/CCAR severely adverse scenario, including a scenario incorporating home price declines and unemployment rate increases at least equal in severity to those experienced from 2007 through 2012 (a "Great Financial Crisis Replay Scenario"), that it maintains sufficient capital to meet policyholder obligations and remain a going concern;

(E) is approved to insure residential mortgage loans acquired by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation pursuant to their respective Private Mortgage Insurer Eligibility Requirements and is in compliance with the financial requirements thereof, as confirmed by the most recent PMIERs sufficiency certification published by the Federal Housing Finance Agency; and

(F) is not subject to any outstanding regulatory order, directive, or corrective action requiring remediation of a capital deficiency, suspension of new business writings, or placement in supervision or receivership by any state insurance regulatory authority.

Proposed CFR Text for Private MI-Adjusted Exposure LTV Framework, cont.

(c)(5) Counterparty haircut. The applicable counterparty haircut:

(i) is 14.2 percent, where the eligible mortgage insurer satisfies the criteria of an eligible mortgage insurer set forth in paragraph (c)(4) of this section at the time coverage is issued, or

(ii) no reduction is available, and the unadjusted ratio under paragraphs (c)(1) and (c)(2) of this section applies, where the eligible mortgage insurer does not satisfy the criteria set forth in paragraph (c)(4) of this section.

(c)(6) Documentation and monitoring. A covered banking organization applying the MI-Adjusted LTV ratio under paragraph (c)(3)(ii) of this section shall:

(i) retain mortgage insurance certificates and master policy documentation for the life of each exposure;

(ii) verify each eligible mortgage insurer's continued eligibility not less than annually; and

(iii) (iii) recalculate the applicable risk weight using the unadjusted LTV ratio under paragraphs (c)(1) and (c)(2) within 90 days of becoming aware that an eligible mortgage insurer has ceased to be in compliance with the applicable eligibility requirements.

Private MIs as Eligible Guarantors

- To facilitate the participation of private MI companies as Eligible Guarantors in credit risk transfer transactions, clarifying edits to the definition of Eligible Guarantor* should be made.

- The Agencies sought comment on subpart 1 of the Eligible Guarantor criteria, regarding the entity having issued and outstanding an unsecured debt security. We recommend that this be amended to allow for an Eligible Guarantor to be controlled by an entity that meets this test.

- Subpart 2 requires that an Eligible Guarantor's creditworthiness not be positively correlated with the credit risk of the exposures for which it has provided guarantees. For private MIs, a severe downturn would neither materially undermine the value of the credit protection nor impact the MI's creditworthiness. We recommend that this be clarified.

- Subpart 3 excludes insurance companies engaged predominantly in the business of providing credit protection (such as a monoline bond insurer or re-insurer). As private MIs are required to be monoline insurers, yet have mitigated this risk including through a diversified capital base, we recommend that this be clarified.

- For subparts 2 and 3, private MI companies should be allowed to provide documentary evidence – including stress test results – to banks and the Agencies under NDA on a transaction basis to refute the positive correlation and wrong-way risk assumption.

* 12 CFR 3.2 (OCC); 12 CFR 217.2 (Federal Reserve); and 12 CFR 324.2 (FDIC).

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Proposed Eligible Guarantor Regulatory Text

Private MIs are experts in evaluating and managing long-term mortgage credit risk and their participation as Eligible Guarantors would allow for potentially billions of dollars of additional private capital to support domestic banks. To facilitate the participation of private MI companies in bank risk transfer transactions, small modifications to the definition of eligible guarantor should be made. The following proposed changes (underlined) to the existing regulations would accomplish this:

(i) That at the time the guarantee is issued or anytime thereafter, has (or, if the entity is investment grade, is 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 so positively correlated with the credit risk of the exposures for which it has provided guarantees as to materially undermine the value of the credit protection; 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) unless it has mitigated the associated risk.