Meeting Between Federal Reserve Board Staff
and Representatives of HVP, Inc.
December 9, 2010

Participants: Sviatlana Phelan and Flora Ahn (Federal Reserve Board)

James Connolly, John Marthinsen, and Larry Flick (HVP)

Summary: Staff of the Federal Reserve Board met with representatives of HVP to discuss mortgage-backed securities and the Federal Reserve Board's responsibilities under section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Representatives of HVP provided Federal Reserve Board staff with a presentation of HVP's products and their overall views on private mortgage insurance and credit risk retention requirements. A copy of the handout provided by HVP at the meeting is attached below. The handout formed the basis for discussions at the meeting and summarizes the issues discussed.

HVP Inc.

James M. Connolly
President, CEO
Tel (508) 580-4753
Mobile (774) 217-0246
jconnolly@hvpprotect.com

HVP Inc. Meeting with Federal Reserve Board Officials
Regarding Proposed Rules on Section 941(b) of the Dodd-Frank Act
December 9, 2010, 1:00 p.m.

1. Introductions

2. Description of HVP Inc. products

   - ***Home Value Protection (HVP)*** offers homeowners rapidly rising protection on a maximum of 20% of their homes' market values. In policy years 1 and 2, coverage is provided on 5% and 10%, respectively, of a home's market value. Thereafter, coverage is provided on 20% of the insured (original market) value.

   - ***Mortgage Value Protection (MVP)*** offers homeowners rapidly rising protection on a maximum of 20% of their mortgages' face values. In policy years 1 and 2 coverage is provided on 5% and 10%, respectively, of a home's mortgage face value. Thereafter coverage is provided on 20% of the mortgage face value.

   - ***Super Home Value Protection (SHVP)*** offers homeowners rapidly rising protection on a maximum of30% of their homes' market values. In policy years 1 and 2, coverage is provided on 7 1/2 % and 15%, respectively, of a home's insured (original market) value. Thereafter coverage is provided on 30% of the insured value.

   - ***Non-Payment Option* -** In the event that an insured homeowner fails to pay premiums for a period of six months, notice of termination is given. Upon notice of termination, an option is provided to the lender/owner of the mortgage loan to assume delinquent and future premium payment obligations, whereupon the beneficiary changes from the borrower to the lender/owner of the mortgage loan.

3. Difference between HVP Inc.'s products and traditional Private Mortgage Insurance (PMI)

   - The critical difference between HVP Inc.'s products and traditional PMI is the beneficiary. HVP Inc.'s policies designate the homeowner/borrower as the beneficiary, and indirectly protect the lender by substantially lowering the threshold at which it is economically advantageous to walk away from an underwater mortgage.

   - By contrast, PMI's sole beneficiary is the lender, and it provides no benefit to a homeowner once the loan has been extended.

4. Section 941(b): Credit Risk Retention and the Qualified Residential Mortgage exemption

   - Section 941(b) of the Dodd-Frank Act introduces a not less than 5% credit-risk retention provision to *discourage* lenders from making risky loans.

   - The Act also encourages market-oriented solutions to reduce homeowner defaults. In particular, the legislation waives the 5% "skin-in-the-game" provision if a mortgage is supported by a secure form of credit enhancement that reduces the risk of homeowner default.

5. HVP Inc.'s products *reduce the risk of default on mortgages,* which is the test in the new law for determining what a "qualified residential mortgage" exemption is under 941(b)'s "Section 15G.(e)(4)".

   Traditional PMI, which only protects lenders against losses upon foreclosure, does not meet Section 941(b)'s "qualified residential mortgage" exemption of *reducing the risk of default.*

6. Specifically, HVP Inc. urges regulators to include language in the proposed regulations defining the "qualified residential mortgage" exemption to the risk retention provisions in Section 941 (b) that makes this important distinction clear between home or mortgage insurance that reduces the risk of default and mortgage insurance that does not reduce the risk of default by including regulatory language to the effect:

   "Only mortgage guarantee insurance, or other types of insurance obtained at the time of origination, that actually reduce the risk of default by making a loan less risky shall be considered for the purposes of an exemption to the risk retention provision. Mortgage guarantee insurance or other types of insurance that simply mitigate losses to lenders upon default do not make a loan less risky and, therefore, do not meet the risk retention exemption criteria."

20 Minuteman Way, Suite 1 Brockton, MA 02301 (508) 580-4753 tel (508) 580-3993 fax