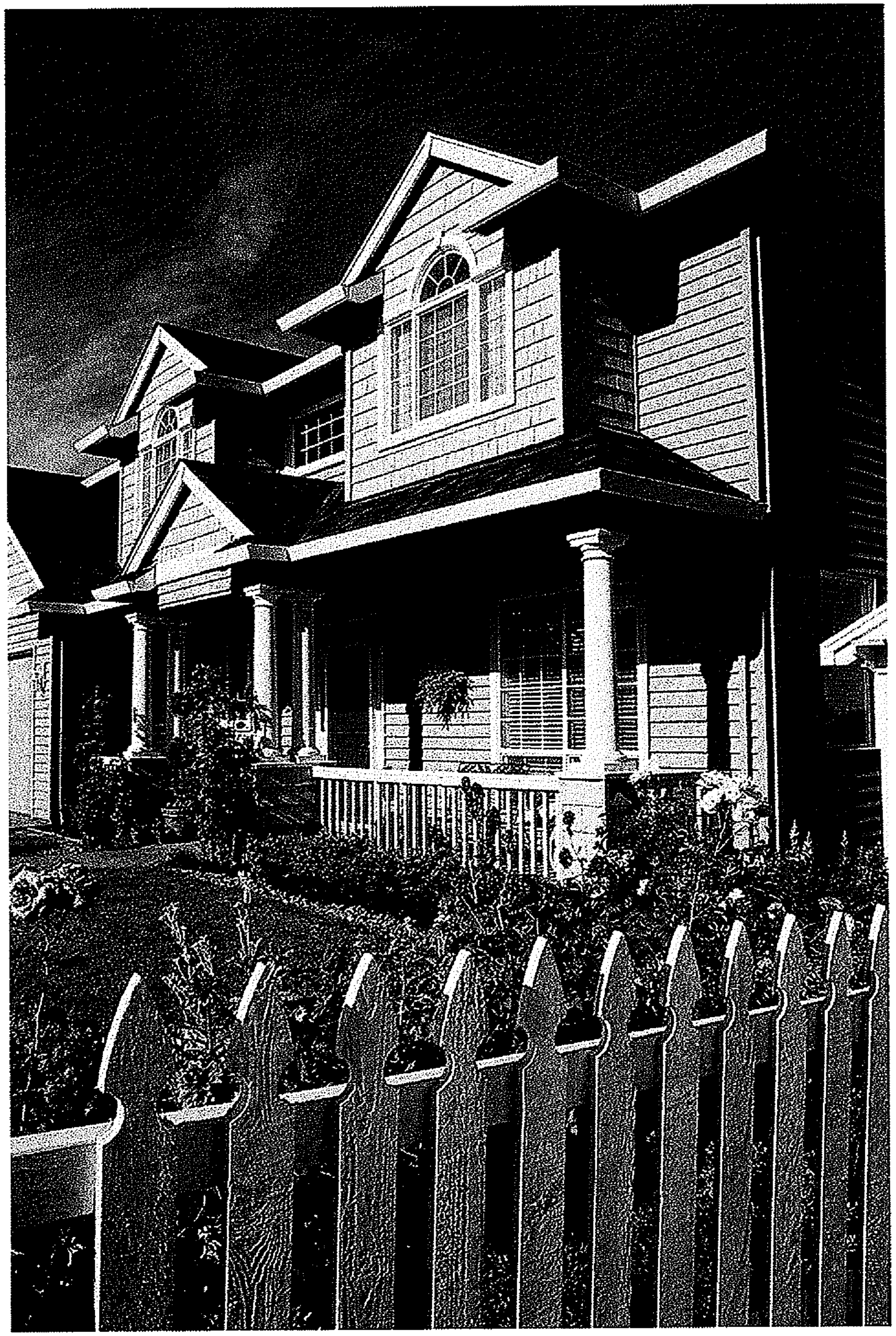
Meeting Between Federal Reserve Board Staff
and Representatives of Mortgage Insurance Companies of America (MICA)
October 6, 2010

Participants: William Treacy, Maureen Yap, Benjamin McDonough, Sebastian Astrada and Flora Ahn (Federal Reserve Board)

Mike Derstein (MICA, Republic Mortgage Insurance Company), Anthony Guarino (MICA, Genworth Mortgage Insurance), Basil Petrou (MICA, Federal Financial Analytics) and Suzanne Hutchinson (MICA)

Summary: Staff of the Federal Reserve Board met with representatives of MICA 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 MICA provided Federal Reserve Board staff with a presentation on the private mortgage insurance industry and their overall views on risk retention requirements. A copy of the handout provided by MICA at the meeting is attached below. The handout formed the basis for discussions at the meeting and summarizes the issues discussed.



Federal Reserve Board

Private Mortgage Insurance Industry Discussion

October 2010

Agenda

Private MI Industry Refresher

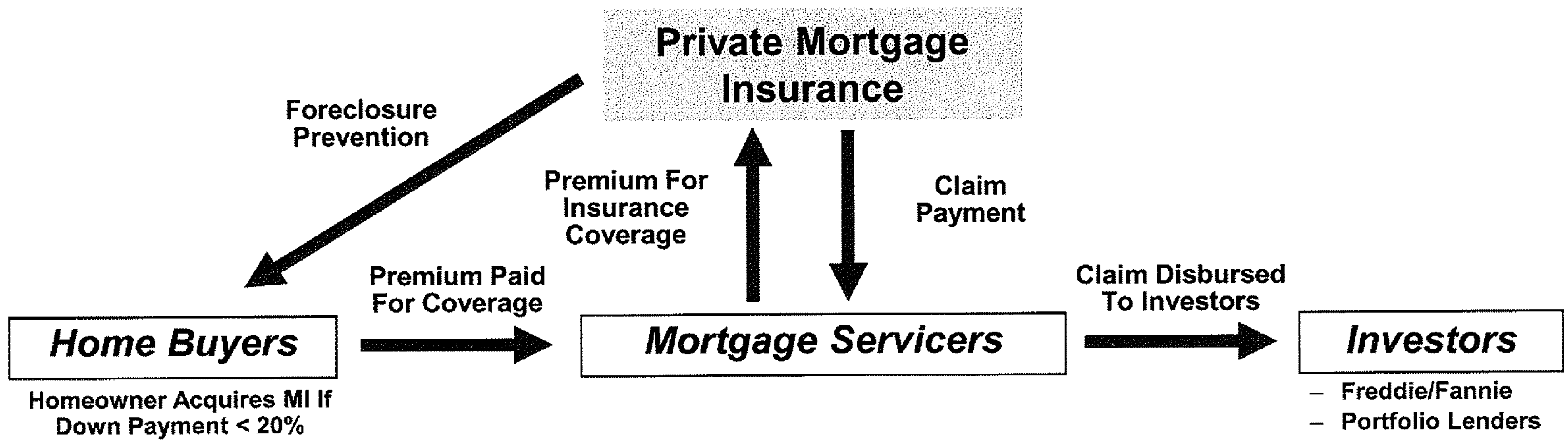
Sustainable Low Downpayment Lending Critical to Recovery

Prudent Underwriting - Qualified Residential Mortgages

The Case for Mortgage Insurance Within the Qualified Mortgage Definition

Recommendations for a Healthy Secondary Market

Private Mortgage Insurance



MI Facilitates Purchase Of Homes With Less Than 20% Down

Pays In a "First Loss" Position After Borrower Equity … Shielding Banks and Investors from Credit Losses

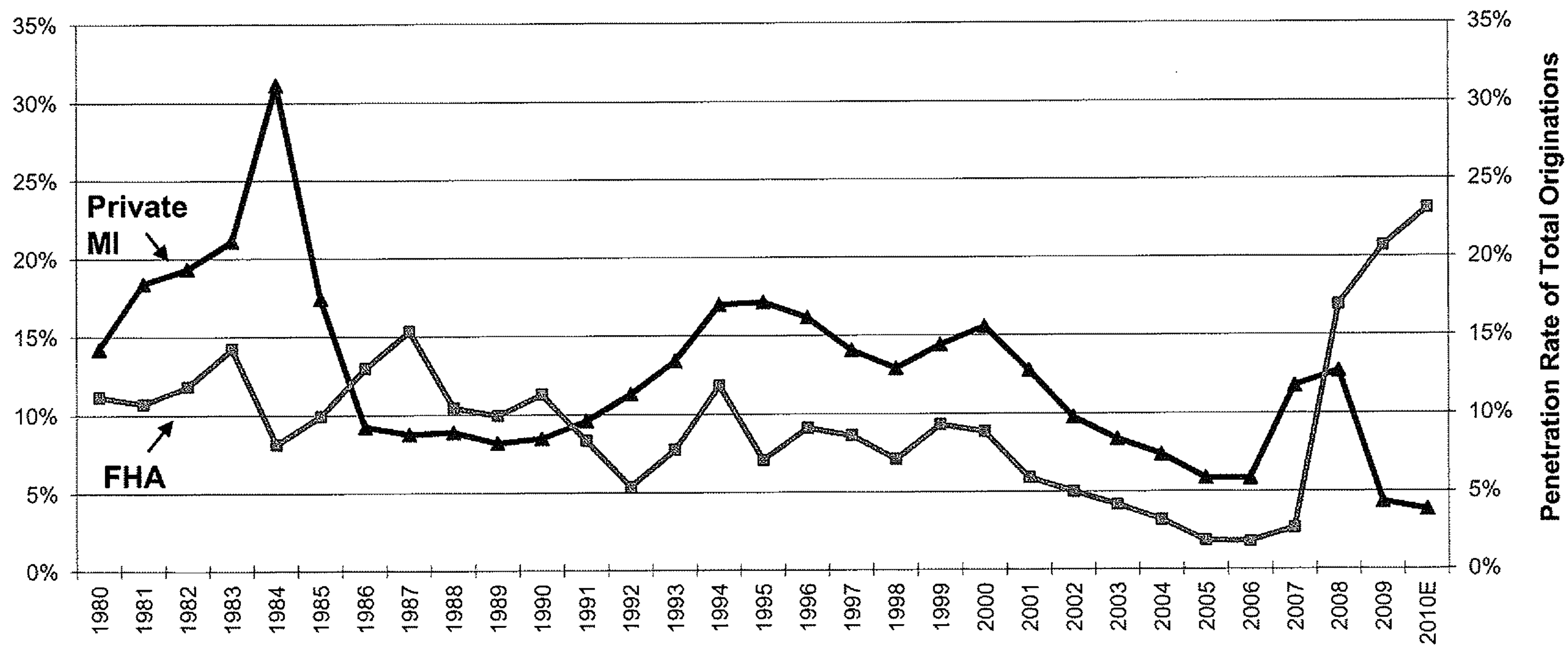
MIs' Independent Underwriting Standards Provide Credit Risk Discipline

Immediately Commits Private Capital Against Each Loan – "Skin in the Game"

Countercyclical Model … Capital Builds via Requirement to Hold 50% Of All Premiums Received in Reserve

Interests Directly Aligned With Borrowers and Investors … Proactively Works With Borrower and Servicer to Prevent Foreclosure

Low Down Payment Lending Penetration



Total MI & FHA 25% 31% 39% 22% 19% 20% 17% 29% 25% 20% 24% 15% 11% 8% 30% 27%

Prudent Low Down Payment Lending Critical to Recovery

Qualified Residential Mortgage Considers This Important Sector of Housing Market

Sources: Private MI data from MICA (excludes HARP), FHA Data from August 13, 2010 IMF, Origination Data from IMF

Note: '2010E' penetration rates are based on MICA estimate

Risk Retention and Qualified Residential Mortgage

- **Dodd-Frank Wall Street Reform and Consumer Protection Act Creates New Obligation for Securitizers to Retain Interest in Securitized Assets**
- **Bill Directs Regulators to Exempt Qualified Residential Mortgages (QRM)**
- **Regulators Must Define a QRM Taking into Consideration Underwriting and Product Features That *Result in a Lower Risk of Default* Such as:**
  - Documented and verified financial resources
  - Standards for: a) residual income after meeting all obligations; b) ratio of housing payment to income; c) ratio of all installment payments to income
  - Standards and features that mitigate the payment shock of ARMs
  - Mortgage guaranty insurance (or other insurance or credit enhancement) obtained *at the time of origination* to the extent such insurance/credit enhancement reduces the risk of default.
  - Prohibitions/restrictions on balloon payments, negative amortization, prepay penalties, interest only & other similar high risk features

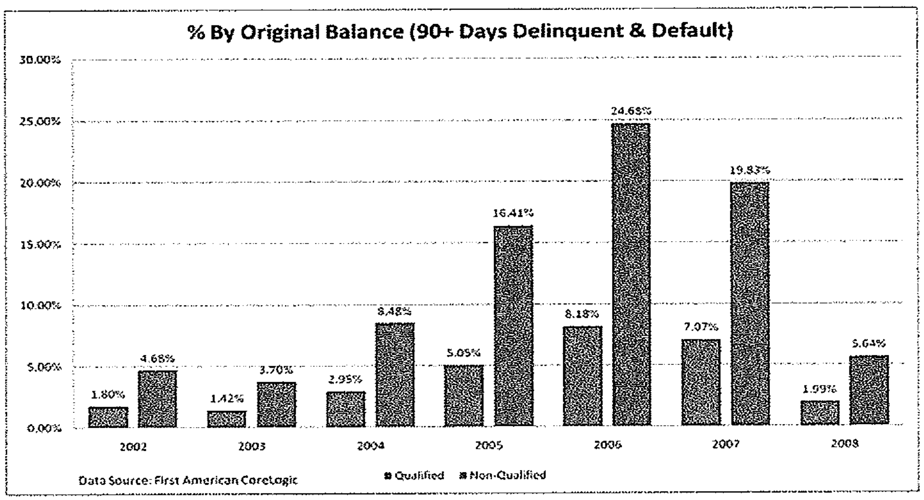
Data Clearly Demonstrates:

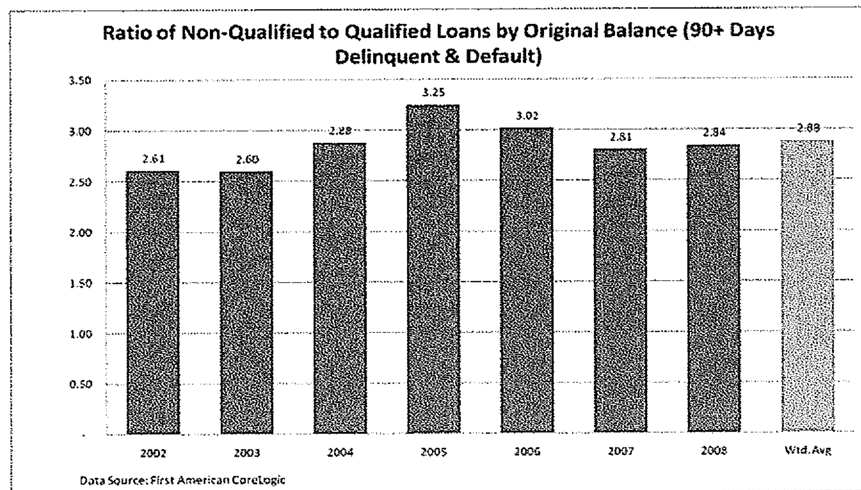
- **A Qualified Mortgage standard mitigates the risk of default**
- **On low down payment loans, Insured Loans have a lower risk of default than comparable Piggyback (uninsured) Loans**

Qualified Mortgage Study

➢ **A Study of Performance by Vertical Capital Solutions using CoreLogic Servicing Dataset Reveals that "Qualified Mortgages" Significantly Outperformed "Non-Qualified Mortgages", Based on the Underwriting Standards Below:**

- Fully Documented Income & Assets;
- Total Debt-To-Income <= 41%;
- 7/1 ARM's & Greater or Fixed Rate;
- Loans with a CLTV >80% must carry MI
- No Balloon; No Interest Only; No Negative Amortization; Term <= 360 months





Qualified Mortgages Clearly Have Lower Risk of Default

Piggybacks Versus Insured Loan Study

- **MICA set out to compare default performance of Insured loans to comparable Piggyback Loans to support the inclusion of a Mortgage Insurance requirement in the Qualified Residential Mortgage definition**

- **Used CoreLogic Servicing Database of over 120 Million Loans**

- **Extracted high CLTV loans and divided them into two Populations:**

  Insured Loan = loan with mortgage insurance (3.8mm loans)

  Piggyback Loan = uninsured loan where 1st lien LTV = 80% and CLTV >80% (1.1mm loans)

- **Examined Performance Data as of June 30, 2010 and segregated each population into 5040 segment combinations of:**
  - **5 Origination Years (2003-2007)**
  - **7 FICO score ranges**
  - **4 Combined Loan-To-Value (CLTV) ranges**
  - **9 US Census Regions**
  - **2 Loan Purpose Categories**
  - **2 Documentation Levels**

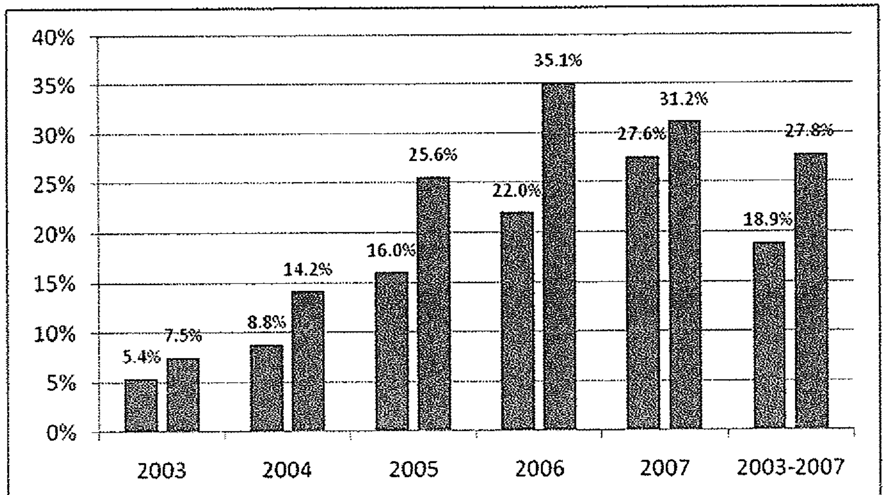
- **Delinquency, Cure & Non-Performing data *normalized* to the distribution of the Piggyback population across all 5040 segments & compared performance**

Findings: Insured Loans Became Delinquent 47% Less Frequently, Cured 54% More Frequently and Have Performed 65% Better than Comparable Piggyback Loans

Piggybacks Versus Insured Loans

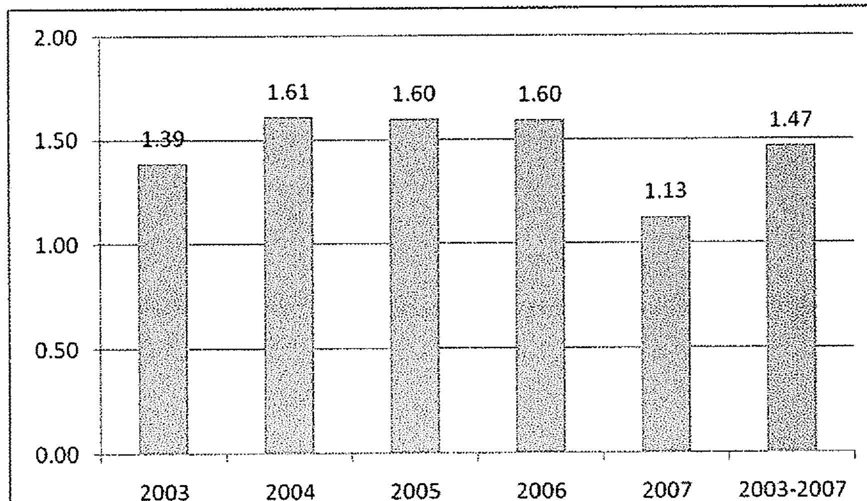
DELINQUENCY PERFORMANCE*

Delinquency Rates By Origination Year
Weighting Segments By Piggyback Profile



Data Source: CoreLogic

Ratio of Piggybacks Delinquency Rates to Insured
% Piggyback Delinquency / % Insured Delinquency



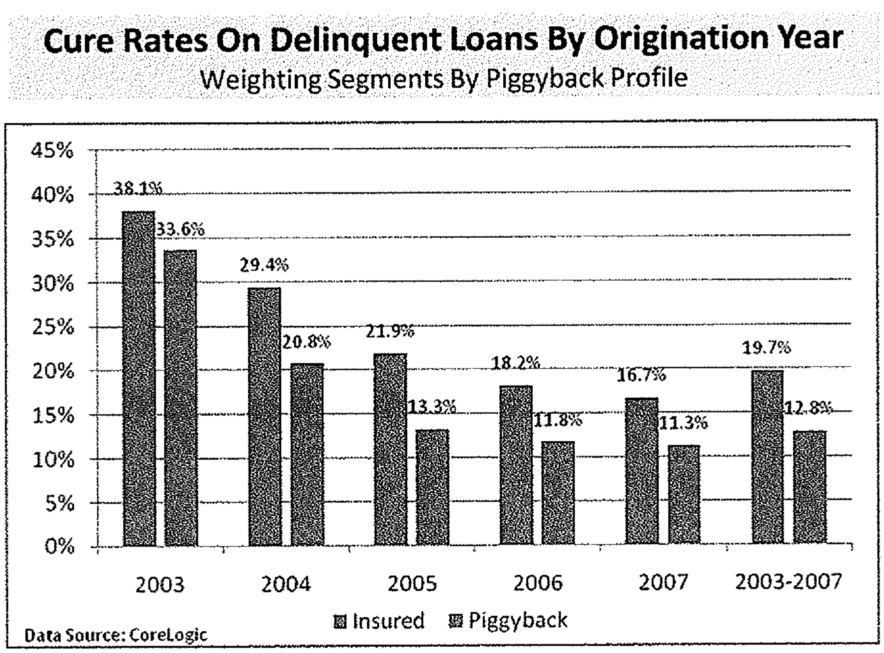
Data Source: CoreLogic

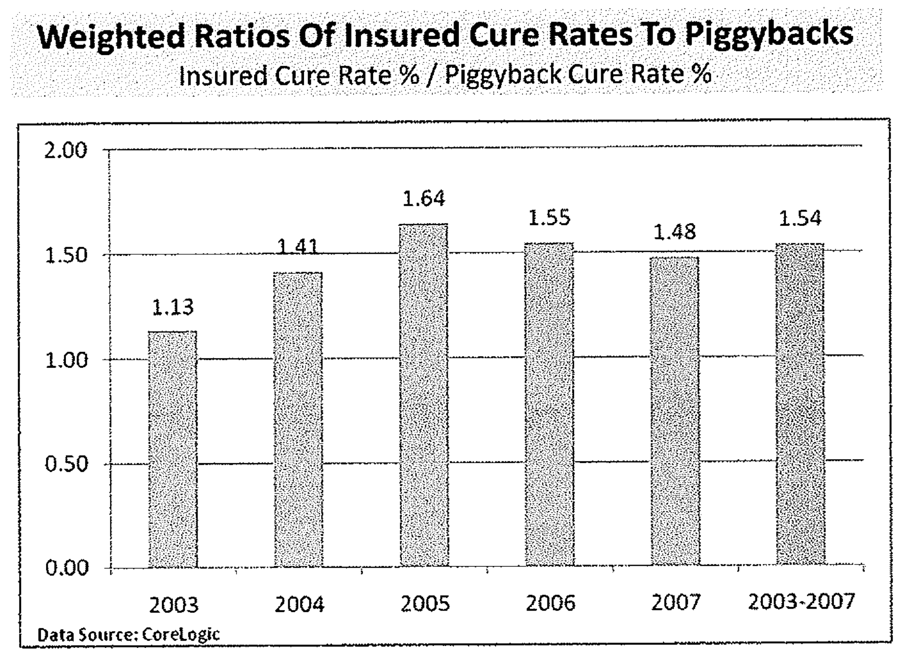
Insured Loans Have Significantly Lower Incidence of Delinquency than Comparable Piggyback Loans

* Ever 90 Day Delinquency Rate: # of loans that ever went 90 or more days delinquent / original number of loans

Piggybacks Versus Insured Loans

CURE PERFORMANCE*



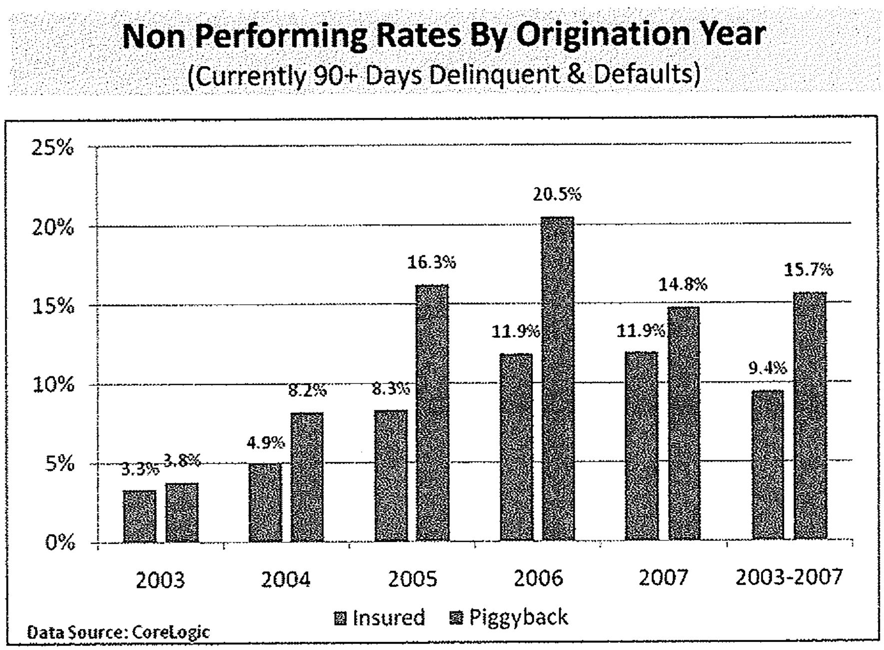


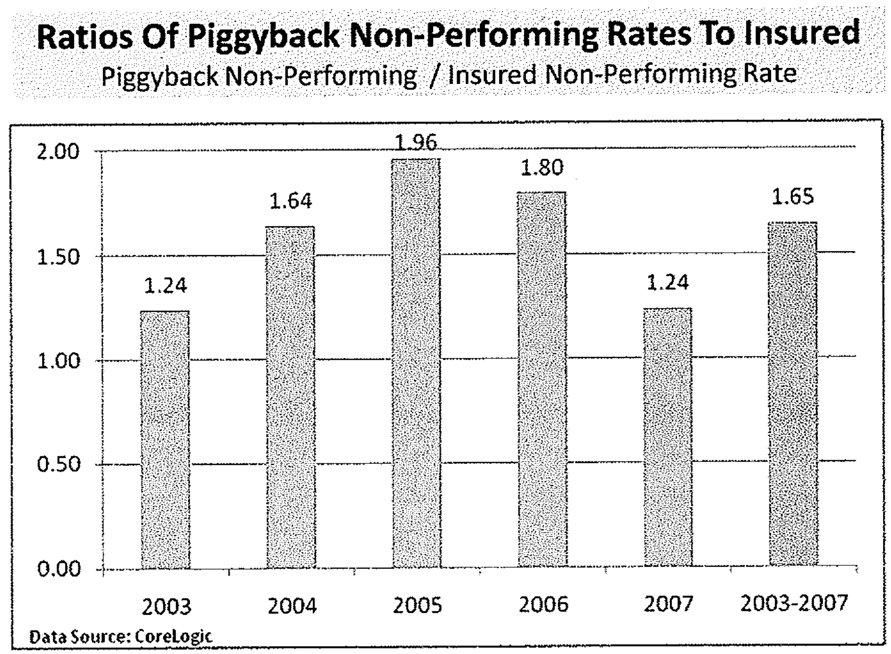
Once Delinquent, Insured Loans Cure 54% More Frequently Than Piggybacks

* Cure Rate: # Ever 90 Day Delinquent loans that subsequently became current / total number Ever 90 Day delinquent loans

Piggybacks Versus Insured Loans

NON-PERFORMING RATES*



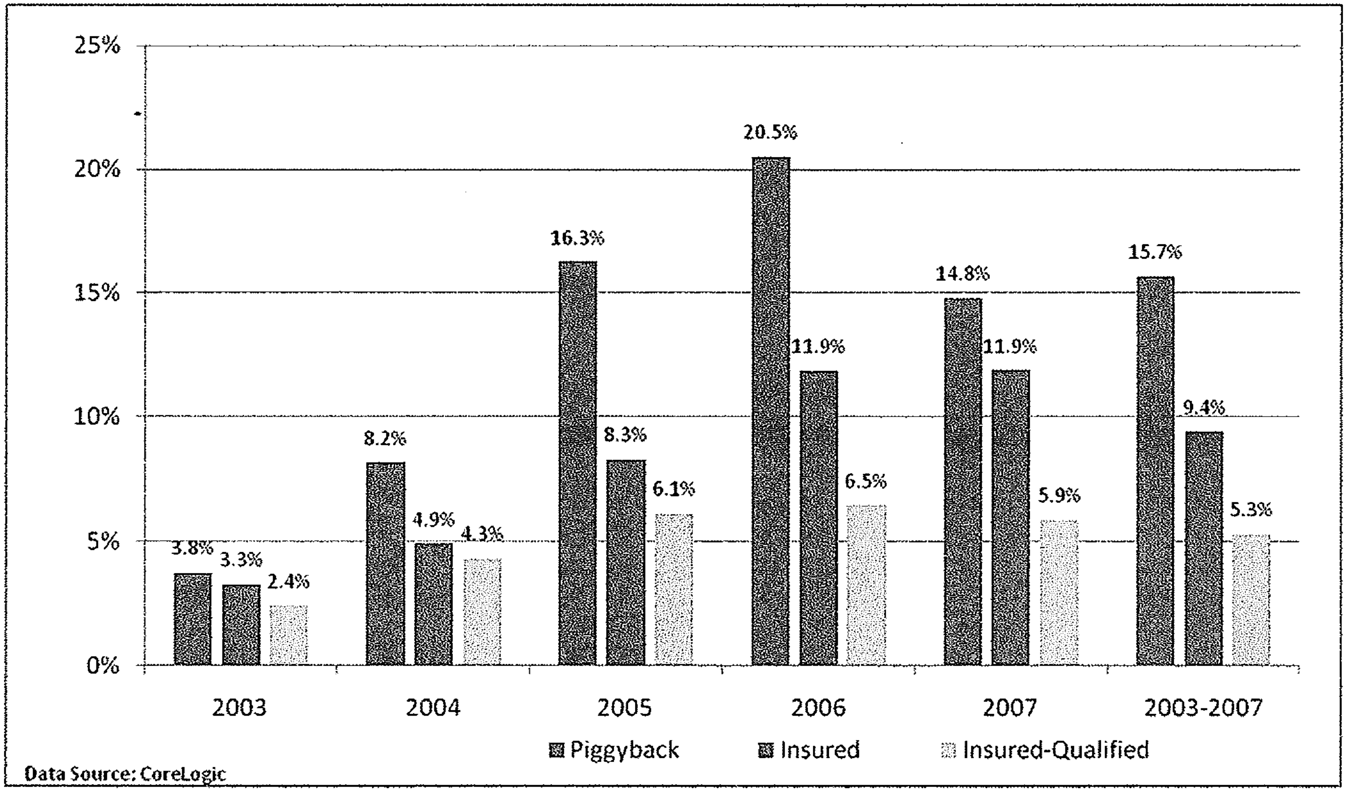


End Result … Insured Low Downpayment Loans Have Lower Risk of Default than Comparable Piggyback Loans

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

Qualified Insured Loan Performance

NON-PERFORMING RATES*



"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

The Case For Private Mortgage Insurance

QRM Exemption is Based on Prudent Underwriting Practices Including MI as a Risk Mitigant on Low Downpayment Mortgages

Loans With Mortgage Insurance Meet the Bar of Lowering Risk of Default as Required Under Dodd-Frank

Current Housing Policy Debate Centered Around Traditional MI Strengths

- Significant and Transparent Private Capital … Skin In the Game on Every Loan
- Countercyclical Reserving Methodology … 50% Of All Premiums Earned Held to Pay Claims During Downturns
- Coverage Provides Loss Mitigation and Capital Relief For Lenders and GSEs
- Interests Directly Aligned With Borrowers and Investors … Independent Underwriting and Intense Foreclosure Prevention
- Available Capacity to Increase the Private Industry's Support of Housing

Secondary Market for Prudential Mortgages

To support sustainable lending, including low down payment lending, while protecting taxpayers, new entities must have:

- A role for private sector capital in every sector of the mortgage process – primary, secondary and securitization
- Explicit Federal government support of mortgage backed securities

To ensure safety & soundness, they must have comprehensive Federal regulation with requirements to:

- Set corporate governance standards at least as high as those of the financial services industry
- Limit number of new entities and prohibit depository institution affiliation (or holding company of one)
- Limit credit risk exposure on low downpayment loans by requiring higher levels of private mortgage guaranty capital in a first loss position
- Limited single family portfolio only as needed to maintain a liquid market

Secondary Market for Prudential Mortgages

(Continued)

To ensure prudent underwriting, regulatory structure must include:

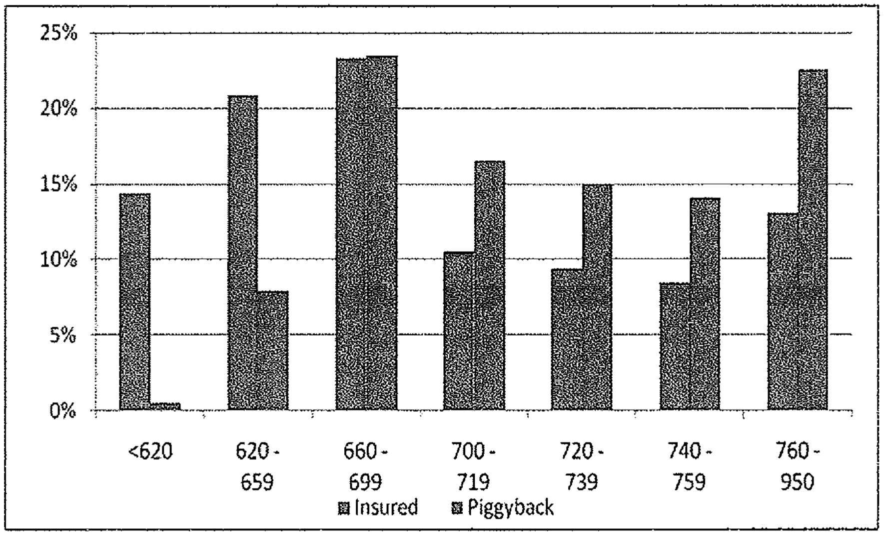
- Transparent underwriting guidelines and new programs that must be approved by the regulator
- Requirements that fees charged by entities be approved by the regulator in a manner similar to state insurance regulator approval of premiums
- Preservation of Mortgage Insurer's Independent Underwriting Standards To Provide Credit Risk Discipline

Appendix

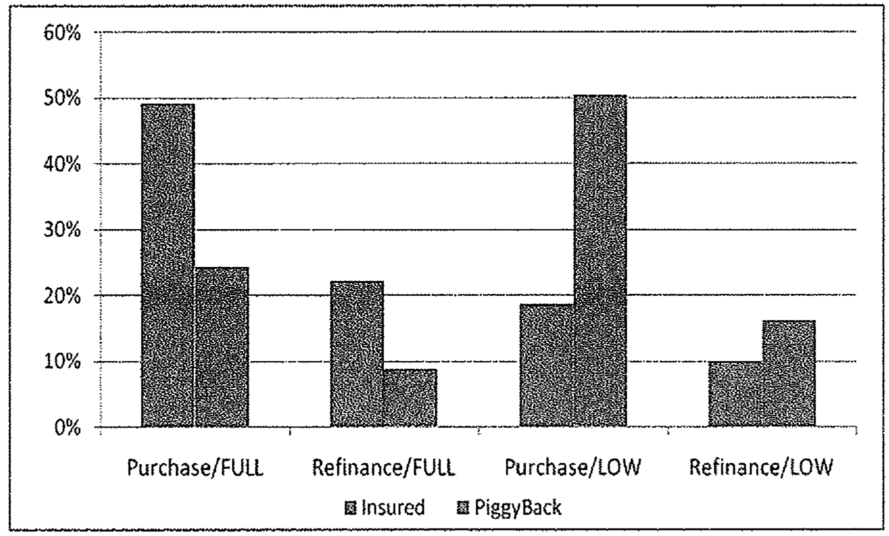
Piggybacks Versus Insured Loans

Differences In Distributions Across Key Metrics

Distribution by FICO Range

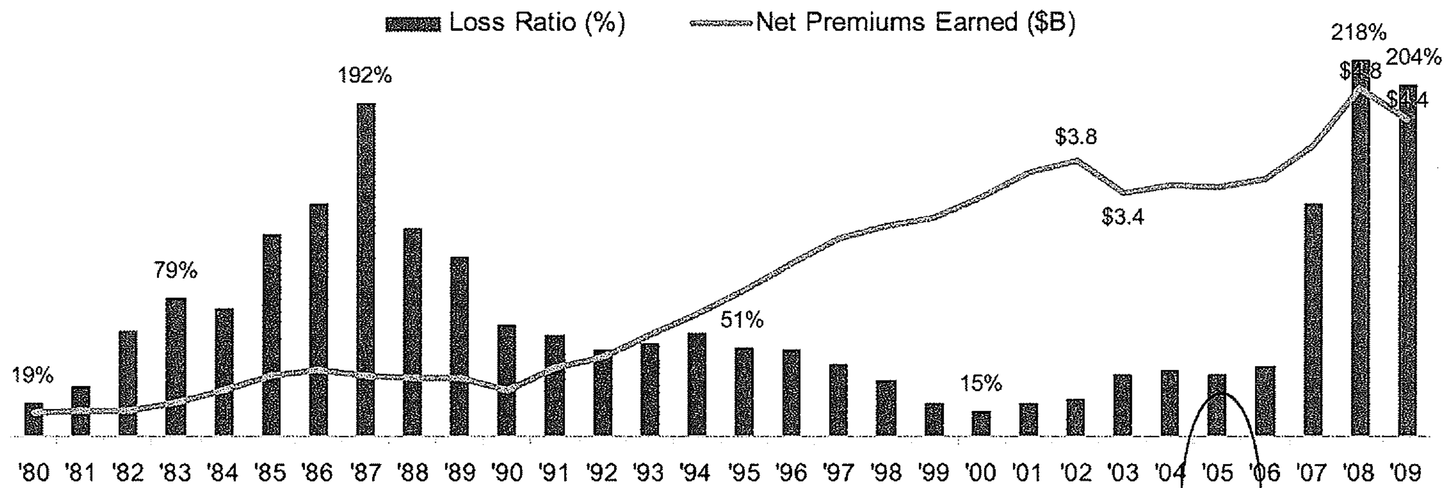


Distribution by Purpose / Documentation



Piggyback Population Relied Heavily on FICO ... Less on Documentation

Premiums, Losses & Capital



Industry Risk to Capital (X:1)	**19.4**	**21.5**	**22.4**	**20.8**	**22.2**	**20.2**	**20.3**	**17.8**	**13.5**	**11.1**	**9.9**	**8.9**	**13.5**	**21.0[1]**
Industry Capital ($B)	**$1.7**	**$1.7**	**$2.0**	**$2.1**	**$2.2**	**$3.5**	**$5.1**	**$7.5**	**$10.8**	**$15.5**	**$15.4**	**$16.8**	**$14.3**	**$9.9[1]**

Source: MICA Reports & Statutory Filings

Mortgage Insurance is Priced For Long Term Cycles

Countercyclical Model ... MIs Build Capital In Good Times to Pay Claims During Economic Downturns

Current Downturn Is The Most Severe Ever Experienced

Model Working Exactly As Designed

[1] Includes new entrant capital (Essent Guarantee)