January 16, 2002

Mr. Alfred Pollard
General Counsel
Office of Federal Housing Enterprise Oversight
Fourth Floor
1700 G Street, NW.
Washington, DC 20552

Via e-mail: RegComments@ofheo.gov

Re: Proposed Revisions to Risk Based Capital Regulation

Dear Mr. Pollard:

Republic Mortgage Insurance Company appreciates the opportunity to comment on OFHEO's proposed revisions to the final Risk Based Capital Regulation.

In OFHEO's own words, "The relationship between AA and AAA defaults is particularly relevant because most Enterprise counterparty and security exposures are either AAA- or AA-rated. An excessive differential between these ratings in the stress test could create in appropriate business incentives for the Enterprises." We most firmly agree with this conclusion and most firmly assert that, after giving effect to the proposed revisions, an "excessive differential" between AAA- and AA-rated mortgage insurance companies continues to exist.

OFHEO wrongly continues to insist on using bond default data for establishing default estimates for members of the highly regulated mortgage insurance industry. Quoting from my September 10, 2001 letter to Director Falcon, "Instead of appealing to bond default studies for the credit enhancement haircuts for MI, OFHEO should have looked to the long history of the MI Industry to determine the probability of AA or AAA MI Companies defaulting. That history includes default frequencies and severities (West South Central) more challenging than those assumed in OFEHO's Stress Test. I have been the only CEO of my company for 29 years (out of the 44 years of the modern MI era) and I have witnessed only one MI Company failing to pay all of is claims (TICOR) and then only to the extent of $31 million. In the past 20 years alone, the MI industry has paid more than $14 billion in claims. A conservative estimate could be made that the modern MI industry has paid more than 99.78% of all valid claims over its 44+ years of existence. The current haircut for AAA MIs is 23 *[16 as proposed*] times the 0.22% historical failure rate! The AA haircut is 68 *[40 as proposed]* times the historical rate!"

We continue to maintain that

1. There is no legitimate basis for preserving the AAA/AA credit enhancement haircut differential and the haircut for AAA is 16 times the historical failure rate of MI coverage,

2. OFHEO erred in supposing that bond default rates by rating category were a proxy for MI AAA and AA default rates over time,

3. OFHEO should have appealed to the MI Industry history for credit enhancement haircuts for AAA and AA MI (such history supports only a 0.22% haircut for the $31 million in unpaid claims resulting from the only default in the 44 years of the modern MI Industry),

4. OFHEO could have used its own Stress Test Model to determine that no AAA/AA credit enhancement haircut differential was justified,

5. The cost of preserving the AAA/AA credit enhancement haircut differential will be significant and extremely difficult to justify from a first time homebuyer perspective and

6. The Regulation should be modified (a) to distinguish MI as separate from "non-derivative counter party" credit enhancements and (b) to provide a single credit enhancement haircut differential, if any, for AAA/AA MI.

Republic Mortgage Insurance Company strongly urges OFHEO to adjust the Risk Based Capital Regulation as shown above to reflect actual mortgage insurance industry experience and to avoid creating inappropriate business incentives for the Enterprises.

Very truly yours,

William A. Simpson
Chief Executive Officer
Republic Mortgage Insurance Company