AMERICAN COMMUNITY BANKERS
AMERICAN INSURANCE ASSOCIATION
CMG MORTGAGE INSURANCE COMPANY
CREDIT UNION NATIONAL ASSOCIATION
CUNA MUTUAL GROUP
MORTGAGE BANKERS ASSOCIATION OF AMERICA
NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS
NATIONAL ASSOCIATION OF HOME BUILDERS
NATIONAL ASSOCIATION OF REALTORS
NATIONAL COOPERATIVE BUSINESS ASSOCIATION
PMI MORTGAGE INSURANCE GROUP

January 17, 2002

Mr. Alfred Pollard
General Counsel
Office of Federal Housing Enterprise Oversight
Fourth Floor
1700 G Street, N. W.
Washington, D. C. 20552

Re: Comments on OFHEO's proposal to amend its Risk-Based Capital Regulation

Dear Mr. Pollard:

The undersigned organizations are pleased to submit to you a joint comment letter on the proposed amendments to Appendix A Subpart B of 12 CFR 1750 Risk-Based Capital announced on December 11, 2001 ("Regulation"). In addition a number of the undersigned organizations will also be submitting individual comment letters.

We were very pleased to see that OFHEO is proposing to reduce the haircut differential between AA and AAA-rated mortgage insurance from ten percentage points to 5.25 percentage points, to lengthen the phase in period for the haircut from five to ten years and to utilize recovery rates in calculating the final capital haircut. We fully support the lengthening of the phase in period, and believe that the reduction in the AA/AAA differential and utilization of recovery rates in calculating the final haircuts are steps in the right direction. However we believe that <u>any</u> differential in the haircut for AA and AAA-rated mortgage insurance is unwarranted not supported by the pertinent data and contradicts the conclusion drawn by every other financial regulators, both domestic and international, that has considered this issue.

Equally important are the consequences to homebuyers. Concentration of pricing power in AAA-rated insurers will increase the cost of homeownership. Additionally, the Regulation will stifle product innovation for high LTV, low- and moderate-income borrowers. The Enterprises, in conjunction with their many business partners, have been creative and committed to developing products to meet the affordable housing goals established by HUD. If the Regulation is not changed, affordable housing will become much less available and home ownership levels for the most vulnerable segments of our society will suffer.

In addition, if mortgage insurance is forced to become a AAA industry because of the regulation, smaller states and smaller markets currently served may see a severe curtailment of available credit enhancement. These cutbacks would result from the higher capital requirements and reduced risk profile dictated by AAA status.

Lenders and nonprofit organizations which work with low, moderate and middle income borrowers are able to choose among 8 mortgage insurance providers, who vigorously compete for every progressive mortgage insurance opportunity. This competition has resulted in the ability to negotiate underwriting guidelines and other program parameters that create affordable home mortgage financing, on reasonable terms, for the greatest number of families. We are very concerned that the opportunities to do so in the future will be greatly diminished if the Regulation is not modified.

Any action that will disproportionately impact low, moderate and middle income homebuyers should be subjected to the strictest standard of scrutiny, particularly at a time when housing and mortgage finance are one of the few bright spots in our economy. We do not believe the capital haircut for mortgage insurance provided by AA-rated mortgage insurers that is required by OFHEO's Final

Risk-Based Capital Regulations can withstand such strict scrutiny. Certainly no other financial regulator that has considered the issue has decided to differentiate between AA and AAA-rated credit providers.

For the foregoing reasons, we specifically request OFHEO to modify the proposed amendments to the Regulation in the following manner:

- Eliminate the current differential between AAA and AA mortgage insurance companies. This is supported by the approach of the U.S. banking regulators, the draft Basel Accord, the rating agencies, the rating of the Enterprises, claim paying experience on mortgage loan defaults since the Great Depression and bond default studies in general.
- Maintain the proposed 10-year phase-in of the capital haircuts.

We share OFHEO's goal of ensuring the mortgage finance system in the United States remains the world's leader in innovation, safety and soundness and able to deliver affordable mortgage funds to low and moderate income homebuyers. However, in our view, the proposed amendments to the Regulation, as published, work against this objective and, therefore, should be modified.

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