June 18, 2026

The Honorable Michelle Bowman
Vice Chair for Supervision
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue NW
Washington, DC 20551

The Honorable Jonathan Gould
Comptroller
Office of the Comptroller of the Currency
400 7th Street SW
Washington, DC 20219

The Honorable Travis Hill
Chairman
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations
Federal Reserve System Docket No. R-1887, RIN 7100-AH20
FDIC RIN 3064-AF29
OCC Docket ID OCC-2026-0265, RIN 1557-AF52

Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets
Federal Reserve System Docket No. R-1888, RIN 7100-AH21
FDIC RIN 3064-AG23
OCC Docket ID OCC-2026-0034, RIN 1557-AF49

Dear Vice Chair Bowman, Chairman Hill, and Comptroller Gould:

Mortgage Guaranty Insurance Corporation ("MGIC") respectfully submits the following comments in response to the notices of proposed rulemaking (the "NPRs") issued March 19, 2026, by the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the Office of the Comptroller of the Currency (the "OCC"), and the Federal Deposit Insurance Corporation (the "FDIC") (together, the "Banking Agencies").

Our comments advance two recommendations supported by nearly 70 years of MGIC's institutional experience, an independent analysis of over 90 million loans, and a historical claims-paying record that directly refutes the predicate underlying the current treatment of private MI in the bank regulatory capital

framework. Section IV of this letter details and provides the qualitative and quantitative rationale for our recommendations:

- **Recommendation No. 1:** The Banking Agencies should expand the recognition of the demonstrated loss-mitigating benefit of MI in the proposed LTV-based risk weights and apply a haircut more aligned with historical claims-paying performance for monoline MI companies meeting specific eligibility criteria proposed herein (see discussion, page 18, and Appendix A, page 28.)

- **Recommendation No. 2:** The Banking Agencies should ensure a viable pathway for financially strong and well-capitalized monoline MI companies (and other qualified insurers) to become eligible guarantors and qualify for the "corporate" 65% risk weight under the substitution framework (see discussion, page 21.)

MGIC: An Industry Founder and Leader

MGIC is a Wisconsin-domiciled monoline mortgage insurance company and the nation's oldest private mortgage insurer, founded in Milwaukee in 1957 by real estate attorney Max Karl. In 2027, MGIC will mark its 70th year of continuous operation, a span encompassing every significant U.S. real estate cycle of the modern era. Throughout each, MGIC continued to write new business and meet its policyholder obligations without a single dollar of federal support and has helped over 14 million American families purchase or refinance their home.

As of March 31, 2026, MGIC had an industry-leading $302.7 billion of primary insurance in force covering approximately 1.1 million mortgages, with primary risk in force of $81.2 billion. MGIC is approved to insure mortgage loans acquired by Fannie Mae and Freddie Mac (collectively, the government-sponsored enterprises, or "GSEs") pursuant to the Private Mortgage Insurer Eligibility Requirements ("PMIERs"); and as of March 31, 2026, maintained Available Assets of $5.8 billion, or $2.9 billion in excess of its Minimum Required Assets ("MRA") required under PMIERs. MGIC's risk-to-capital ratio of 9.6 to-1 as of March 31, 2026, is less than half the maximum statutory limit of 25-to-1; and MGIC's policyholder position of $5.9 billion exceeded the required minimum policyholder position of $2.1 billion by $3.8 billion. MGIC carries investment-grade financial-strength ratings; and its publicly traded parent, MGIC Investment Corporation (NYSE:MTG), carries investment-grade credit ratings.[1] As the nation's first, oldest, and largest modern-day private mortgage insurer[2], MGIC brings to these comments a singular institutional perspective. Additionally, I currently serve as Chairman of U.S. Mortgage Insurers ("USMI"), the private mortgage insurance industry's trade association.

MGIC's Stake in the Banking Agencies' Proposals

Private mortgage insurance is the primary mechanism available to banks for managing the credit risk of high loan-to-value ("LTV") loans that serve borrowers, including first-time homebuyers and households of modest means who have not yet accumulated a 20% down payment. MGIC estimates that roughly 25%-to-30% of the loans we insure for bank policyholders are retained in portfolio rather than sold to the GSEs, reflecting the banking industry's reliance on MI as a balance-sheet credit risk management tool across a range of programs including jumbo loans, programs for medical professionals and other specialized

[1] MGIC's financial strength ratings are A2 with Moody's Investors Service ("Moody's"), A- with Standard & Poor's Global Ratings ("S&P"), and A with AM Best. MGIC Investment's credit ratings are Baa2 with Moody's and BBB- with S&P.

[2] Based on insurance in force of $303.1 billion as of Dec. 31, 2025, MGIC had the largest amount of insurance in force and risk in force among the six domestic monoline mortgage insurance companies.

segments, and programs tailored to assist low-to-moderate-income ("LMI") households in the attainment of homeownership.[3]

How the Banking Agencies treat mortgage insurance in the determination of bank regulatory capital has a direct bearing on the degree to which banks will continue to deploy private MI as a risk management tool to facilitate broader access to credit, and whether the demonstrable benefits of MI to bank policyholders will be appropriately reflected in the prudential oversight framework, creating greater parity with other capital regimens in the U.S. mortgage finance ecosystem.

MGIC's Scope of Comments

USMI is submitting a companion comment letter on behalf of its five member companies, including MGIC. The comments of MGIC and USMI are aligned and anchored to a core belief that the case for expanding the recognition of the credit-loss mitigating benefits of MI in bank prudential oversight is exceptionally strong and critically important to ensuring that the nation's banks play a critical role in ensuring access to affordable mortgage credit across the housing cycle.

In making this case, our comments address the Agencies' questions from the perspective of MGIC's institutional experience, financial position, and nearly 70-year operating history.[4] These comments are submitted principally in response to Question 8 of the Standardized Approach NPR ("SA NPR") and Question 21 of the Expanded Risk-Based Approach NPR ("ERBA NPR") which seek input on how the loss coverage benefit of private MI should be appropriately reflected in the determination of risk-based capital requirements. Our comments also address Question 22 of the SA NPR and Question 51 of the ERBA NPR pertaining to subpart (i) of the eligible guarantor definition. Though not prompted by the NPRs, we offer comments on subparts (ii) and (iii) of the eligible guarantor definition. These subparts, collectively, have the effect of categorically excluding monoline MI companies (as well as many other insurers) from being evaluated as eligible guarantors and, in doing so, prohibit banks from working with numerous financially strong and well-capitalized insurers who otherwise could facilitate prudent and effective credit risk transfer ("CRT") that would reduce the U.S. banking industry's interconnectedness and systemic risk.

MGIC's comments are organized around three areas of focus that provide critical background, quantitative validation, and historical context for our recommendations:

- **First (Section I).** The Banking Agencies should be fully confident that the monoline MI industry is a sound, resilient, and tested counterparty. MGIC paid 100% and the industry paid greater than 96% of approved claims[5] in the immediate aftermath of the Great Financial Crisis ("GFC"), the nation's worst financial crisis since the Great Depression, without receiving a single dollar of federal bailout funds – a performance that meets or exceeds the standards the major rating agencies hold today for AAA recovery rates. These conclusions are further corroborated by independent research of over 90 million GSE loans that confirms that private MI reduced net loss severity on insured high-LTV loans to below the gross loss severity of lower-LTV loans, with paid claims representing 97% of contractual coverage on Great Financial Crisis-vintage originations.[6]

---

[3] Roughly 25%-to-30% of the loans we insure for banks are identified through a monthly reconciliation process as not having been delivered to the GSEs.

[4] MGIC defers to USMI's letter for MI industry-wide data and aggregate statistics.

[5] MGIC analysis of MI company statutory reports indicates that MI companies paid 96% of *all* approved claims in the 2008-14 period, which is the immediate aftermath of the GFC.

[6] Andrew Netter & Jonathan Glowacki, Calculating the Historical Benefit of Private Mortgage Insurance: An Empirical Assessment of Realized GSE Mortgage Losses Across LTV Cohorts from 2000 Through 2025, Milliman (May 2026), commissioned by USMI.

- **Second (Section II).** The monoline MI business model is uniquely structured – featuring a regulatory architecture that is singular within the insurance industry and tailored for the cyclical nature of real estate economics – to accumulate its maximum capital when the housing market is performing well via organic capital generation and programmatic reinsurance placement and to deploy reserved capital progressively and realize reinsurance ceded loss benefits during periods of severe stress. This diversified and countercyclical capital structure distinguishes the monoline MI model from virtually all other financial intermediaries, and it is the structural foundation of the industry's demonstrated resilience, and MGIC's own ability to withstand 10 economic recessions since 1957 as a going concern writing new business every day.[7]

- **Third (Section III).** The post-crisis decade produced the most comprehensive overhaul of U.S. financial regulation since the New Deal, touching every participant in the mortgage finance ecosystem. The monoline MI industry emerged from this reform period significantly strengthened, operating under more stringent capital requirements imposed by the GSEs and bound by a uniform master policy that provides early rescission relief provisions for policyholders while aligning with the GSEs' own representations and warranties framework. The Banking Agencies should evaluate today's MI industry through the post-reform lens, not the pre-reform one.

MGIC welcomes continued dialogue with Agency staff and would be pleased to meet at your convenience with our peer companies in USMI to discuss these comments in further detail.

Respectfully,

Timothy J. Mattke

---

[7] The 10 U.S. economic recessions since MGIC's founding in 1957, as dated by the National Bureau of Economic Research (NBER), are: August 1957–April 1958; April 1960–February 1961; December 1969–November 1970; November 1973–March 1975; January 1980–July 1980; July 1981–November 1982; July 1990–March 1991; March 2001–November 2001; December 2007–June 2009 (the Great Financial Crisis); and February 2020–April 2020 (the COVID-19 recession). See National Bureau of Economic Research, US Business Cycle Expansions and Contractions, https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions.

SECTION I. THE MONOLINE MORTGAGE INSURANCE INDUSTRY MET ITS OBLIGATIONS DURING THE NATION'S MOST SEVERE ECONOMIC CRISIS SINCE THE GREAT DEPRESSION

The empirical record does not support the proposition that the mortgage insurance industry failed its policyholders during the Great Financial Crisis, yet that premise appears to underlie the current treatment of MI – including the eligible guarantor exclusion – in the bank regulatory capital framework. The record of private MI during this time period warrants re-examination.

The GFC was the most severe national recession since the Great Depression. Home prices declined nationally by approximately 33% peak-to-trough, comparable in magnitude to the Great Depression, exceeding 50% in the hardest-hit markets. Unemployment peaked at 10.0%. GDP contracted 4.3%, the deepest recession since World War II. The federal government placed Fannie Mae and Freddie Mac into conservatorship in September 2008, ultimately committing approximately $191 billion in taxpayer support.[8] Major financial institutions required extraordinary federal intervention under the Troubled Asset Relief Program ("TARP"), and the broader financial sector sustained losses measured in the trillions of dollars. The financial services regulatory infrastructure that had governed U.S. markets for decades was judged to have failed comprehensively – a conclusion reached by Congress and regulators as they autopsied the causes of the crisis in search of policy solutions that would prevent a recurrence of the housing collapse and create a more durable financial system capable of withstanding harsh economic cycles.[9]

The MI Industry Paid Greater Than 96% of Approved Claims

Against this backdrop, the monoline MI industry paid more than $62 billion in claims from 2008 through 2014, an amount equal to 96% of approved claims.[10] As of December 31, 2025, the industry's cumulative paid-claim rate on the approximately $64 billion in approved claims stood at 97%.[11] The MI industry's crisis-era paid-claim rate falls within the threshold that Fitch Ratings, Moody's Investors Service, and S&P Global Ratings calibrate for AAA recovery rates today.

The federal government committed approximately $245 billion through TARP to stabilize the nation's banking institutions, invested $191 billion in Fannie Mae and Freddie Mac through their conservatorship, and disbursed approximately $182 billion to prevent the disorderly failure of American International Group, Inc. ("AIG"). [12] In contrast to a combined federal outlay of approximately $618 billion directed at some of the financial sector's most prominent participants of the era, the MI industry accomplished its paid-claim rate without a dollar of taxpayer support.

---

[8] Federal Housing Finance Agency, conservatorship draws on U.S. Treasury Senior Preferred Stock Purchase Agreements ultimately totaling approximately $191.5 billion for Fannie Mae and Freddie Mac combined.

[9] *The Financial Crisis Inquiry Report*, Financial Crisis Inquiry Commission (Jan. 2011), at https://www.govinfo.gov/content/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf; and Greenspan testimony before House Oversight Committee (Oct. 23, 2008), https://leaderarchive-hoyer.house.gov/content/hoyer-greenspan-acknowledges-role-regulatory-neglect.

[10] MGIC analysis of MI company statutory reports indicates that MI companies paid 96% of all approved claims in the 2008-14 period, which is the immediate aftermath of the GFC, and 97% as of Dec. 31, 2025, with that figure continuing to increase. MGIC analysis available upon request.

[11] Ibid.

[12] U.S. Department of the Treasury, Troubled Asset Relief Program, https://home.treasury.gov/data/troubled-asset-relief-program; ProPublica Bailout Tracker, https://projects.propublica.org/bailout/; GAO, "Troubled Asset Relief Program: Lifetime Cost," GAO-24-107033 (December 2023). The $191 billion GSE conservatorship figure reflects draws on U.S. Treasury Senior Preferred Stock Purchase Agreements for Fannie Mae and Freddie Mac combined.

Understanding the Deferred Payment Obligation Mechanism

In the wake of the Great Financial Crisis, three of the industry's eight active monoline MI companies at the time – PMI Mortgage Insurance Co. ("PMI"), Republic Mortgage Insurance Corp. ("RMIC"), and Triad Guaranty Inc. ("Triad") – entered regulatory supervision or receivership. Importantly, the other five companies continued to pay claims in full and write new business, operating continuously with no disruption in meeting policyholder obligations. For each of the three companies that entered supervision, state insurance regulators approved a Deferred Payment Obligation ("DPO") arrangement under which an initial cash percentage of each approved claim was paid immediately, with the remainder deferred and paid later with interest.

A DPO is a formal feature of state insurance regulation; it is a supervised, court-administered process specifically designed for extreme stress scenarios that allows continued claim payment while protecting all policyholders equitably. Structurally, it is analogous to a debt restructuring with full payment of principal and interest over time, subject to regulatory oversight.

The outcomes demonstrate the mechanism working as designed. RMIC paid all approved claims in full, including accrued interest on DPO balances; and it exited regulatory supervision in 2014 as a complete rehabilitation.[13] PMI[14] and Triad[15] continue to pay claims and the overall industry paid-claim rate, inclusive of DPO companies, continues to improve. Banks that received DPO payments were not left without recourse and were not required to write off uncovered amounts. They received initial cash payments of 50% to 60% of approved claims from the outset, with cash payment rates increasing incrementally over time and with the legal right to recover deferred amounts with contractual interest.

Private MI Materially Reduced Loss Severity for Policyholders

In a February 2015 paper, the Urban Institute concluded that mortgage insurance was "doing precisely what it is designed to do: lowering actual losses on higher LTV loans to levels seen in much lower LTV loans."[16] Urban expanded on this finding in a July 2019 paper analyzing Fannie Mae loan acquisitions from 1999 through the first quarter of 2018, concluding that private MI reduced loss severity on high-LTV loans by 19 to 24 percentage points – "a very substantial reduction."[17] The effect was most pronounced during the peak crisis vintages. For 2007 originations, Fannie Mae's loss severity on loans without MI was 61% – versus 37% for loans with MI – a 24-percentage point reduction due to the acquisition of MI on higher-LTV loans

---

[13] RMIC went into regulatory supervision under a corrective order of the North Carolina Department of Insurance and ceased writing new business, directing all capital to the payment of claims. RMIC's DPO was reduced to 0% following a July 2014 order, all claims after that point were paid in cash, all outstanding DPOs were paid in full with interest, and RMIC exited regulatory supervision in 2014.

[14] PMI's DPO was reduced to 17% following a June 2025 order of the Arizona Department of Insurance. 83% of all claims are now paid in cash, and all outstanding DPO claimants have received true-up payments to the 83% threshold. PMI remains in administrative run-off with claims being paid at a rate of 83% in cash and the DPO threshold subject to periodic review and adjustment.

[15] Triad's DPO was reduced to 25% following an October 2013 order of the Illinois Department of Insurance. Triad remains in rehabilitation receivership and continues to pay 75% of claims in cash with 25% deferred. On April 8, 2026, the Rehabilitator filed a Petition for Approval of an Amended Plan of Rehabilitation that will effectively wind down the rehabilitation. The amended plan proposes to deem all defaults pending as of September 30, 2026, as timely-filed contingent claims, and establish March 31, 2027, as the proof of claim filing deadline for any loan defaults incurred but not yet reported to Triad before the cancellation date. The plan proposes to set November 30, 2029, as the final date by which all contingent claims must be fully perfected and supported with documentation.

[16] Laurie Goodman and Jun Zhu, "Loss Severity on Residential Mortgages: Evidence from Freddie Mac's Newest Data," The Journal of Fixed Income, Vol. 25, No. 2, pp. 48–57 (Fall 2015); see also Laurie Goodman and Jun Zhu, "Private mortgage insurance is better than expected at protecting taxpayers from losses," Urban Institute, February 3, 2015, https://www.urban.org/urban-wire/private-mortgage-insurance-better-expected-protecting-taxpayers-losses.

[17] Laurie Goodman and Jun Zhu, "Private Mortgage Insurance Reduces the Severity of Losses for Those Holding Risk," Urban Institute, July 26, 2019, https://www.urban.org/urban-wire/private-mortgage-insurance-reduces-severity-losses-those-holding-risk.

which are riskier from a loss given default perspective. Across the full period studied (1999 through the first quarter of 2018), MI reduced Fannie Mae's average loss severity from 53% to 31%, a 22-percentage point reduction.[18]

The recent Milliman analysis measures MI's loss mitigation across more than 90 million GSE loans originated from 2000 through 2025. The analysis found that, during the crisis vintage (including loans originated from 2005 through 2009), private MI reduced net loss severity on insured high-LTV loans to below the gross loss severity observed on loans in the 60%-to-80% LTV benchmark cohort, the highest-LTV cohort not requiring MI coverage.[19] Specifically, net loss severity on insured loans with original LTVs of 80%-to-90% was 37% of unpaid principal balance ("UPB"), and 29% for the insured 90%-to-100% cohort, compared to 52% gross loss severity in the uninsured 60%-to-80% LTV benchmark (see Exhibit A). On a relative basis, MI-covered loans exhibited net loss severity of 0.71x and 0.55x of the benchmark, respectively, indicating private MI more than offset the incremental severity risk of higher-LTV lending (see Exhibit B).

Historical Loan Performance By OLTV Cohort: Crisis Vintage (2005-09)

Exhibit A 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 after MI benefit (% credit event UPB)	**40%**	**45%**	**52%**	**37%**	**29%**
D. Loss reduction due to MI = (1 - C/B)	Not applicable - No MI acquired			35%	50%
E. Gross loss rate (% original UPB) = (A x B)	0.1%	0.4%	1.7%	4.6%	6.2%
F. Net loss rate after MI benefit (% original UPB) = (A x 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

Historical Loan Performance By OLTV Cohort, Relative to 60-80 Cohort: Crisis Vintage (2005-09)

Exhibit B Original LTV %	**<50%**	**50-60%**	**60-80%**	**80-90%**	**90-100%**
Credit event rate (% original UPB)	0.09%	0.31%	1.00%	2.55%	3.40%
Gross loss severity (% credit event UPB)	0.77%	0.86%	1.00%	1.09%	1.10%
Net loss severity (% credit event UPB)	**0.77%**	**0.86%**	**1.00%**	**0.71%**	**0.55%**
Gross loss rate (% original UPB)	0.07%	0.27%	1.00%	2.79%	3.73%
Net loss rate after MI benefit (% original UPB)	0.07%	0.27%	1.00%	1.81%	1.86%

Source: Milliman analysis of combined Fannie Mae and Freddie Mac single-family loan performance datasets

The analysis further demonstrates that MI coverage depth matters. Within the high-LTV population, net loss severity declined monotonically as MI coverage levels increased, from 0.88x of the benchmark in the

[18] Ibid.

[19] Andrew Netter & Jonathan Glowacki, Calculating the Historical Benefit of Private Mortgage Insurance: An Empirical Assessment of Realized GSE Mortgage Losses Across LTV Cohorts from 2000 Through 2025, Milliman (May 2026), commissioned by USMI.

lowest coverage band (0%-to-12%) to 0.54x in the highest (greater than 30%), while gross loss severity essentially remained constant across coverage bands (see Exhibits C and D).[20] This confirms that MI functions precisely as intended – as a loss-given-default mitigant – and that deeper coverage produces proportionally greater loss reduction.

Historical Loan Performance By OLTV Cohort: Crisis Vintage (2005-09)

Exhibit C	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%**	**49%**	**33%**	**29%**	**28%**
D. Loss reduction due to MI = (1 - C/B)		Not applicable - No MI acquired			19%	41%	50%	54%
E. Gross loss rate (% original UPB) = (A x B)		0.1%	0.4%	1.7%	3.7%	4.9%	6.4%	9.8%
F. Net loss rate after MI benefit (% original UPB) = (A x 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

Historical Loan Performance By OLTV Cohort, Relative to 60-80 Cohort: Crisis Vintage (2005-09)

Exhibit D	Original LTV %	<50%	50-60%	60-80%	80-100%			
	MI Coverage %	No Coverage			0-12%	12-25%	25-30%	>30%
Credit event rate (% original UPB)		0.09%	0.31%	1.00%	2.07%	2.71%	3.47%	5.02%
Gross loss severity (% credit event UPB)		0.77%	0.86%	1.00%	1.08%	1.07%	1.11%	1.17%
Net loss severity (% credit event UPB)		**0.77%**	**0.86%**	**1.00%**	**0.88%**	**0.63%**	**0.55%**	**0.54%**
Gross loss rate (% original UPB)		0.07%	0.27%	1.00%	2.24%	2.91%	3.85%	5.88%
Net loss rate after MI benefit (% original UPB)		0.07%	0.27%	1.00%	1.82%	1.71%	1.93%	2.72%

Source: Milliman analysis of combined Fannie Mae and Freddie Mac single-family loan performance datasets

Private MI performed reliably under stress. The Milliman analysis reveals that paid MI claims represented 97% of contractual coverage on crisis-vintage credit events, demonstrating that the private MI sector honored its obligations during the most severe mortgage downturn in modern history (see Exhibit E). The 97% claim realization metric is the ratio of MI claim payments received by policyholders relative to the contractual coverage amount due on credit events. It directly measures the economic benefit that policyholders ultimately recovered from the MI coverage they purchased. A claim realization rate below 100% reflects any combination of claim denials, deferred payment arrangements, or instances in which the MI company has satisfied the full MI obligation without exhausting 100% of the contractual coverage. Importantly, Milliman notes: "MI reimburses the GSE for the realized loss on a covered claim up to the loan's contractual coverage amount. When realized losses are small relative to the contractual coverage layer – as is generally the case in benign credit environments – paid MI claims may fall below the contractual coverage amount while still fully satisfying the GSE's loss on the loan. A realization rate below 100% therefore does not, in itself, indicate that MI underperformed; in benign environments, it reflects that the realized loss did not require the full contractual coverage to be paid." Milliman points to the pre- and

[20] Ibid.

post-crisis periods as evidence of this dynamic, while noting that in times of severe stress the MI claim realization rate was the highest because the losses to be covered were the greatest.

Claim Realization Rates - All Loans With MI

Exhibit E	Original LTV % / MI Coverage %	All Loans	80-100% 0-12%	12-25%	25-30%	>30%
All Vintages (2000-25)		93%	86%	95%	91%	92%
Pre-Crisis (2000-04)		91%	77%	93%	91%	92%
Crisis (2005-09)		**97%**	**92%**	**98%**	**97%**	**94%**
Post-Crisis (2010-25)		70%	69%	68%	71%	71%

Source: Milliman analysis of combined Fannie Mae and Freddie Mac single-family loan performance datasets

Milliman's finding that paid claims represented 97% of contractual coverage across this vintage means that the GSEs recovered 97 cents for every dollar of contractual primary MI coverage on loans that experienced a credit event during the worst housing downturn in eight decades. This finding, drawn directly from the GSEs' own publicly available loan performance data, provides strong empirical support for recognizing the loss-mitigating effect of private MI in any standardized capital framework for residential mortgage exposures.

The GSEs are recognizing the value of the MI benefit. As of year-end 2024, approximately $1.4 trillion (21%) of their combined single-family portfolios was protected by private MI, making MI the GSEs' primary mechanism for credit risk transfer.[21] A March 2025 white paper by the U.S. Federal Housing's Office of Inspector General described GSE-eligible mortgage insurers as financially strong and noted that "mortgage insurers are crucial to the Enterprise business as they account for the largest portion of Enterprise counterparty risk."[22]

Addressing Crisis-Era Coverage Rescissions

The MI industry was criticized for rescinding coverage on crisis-era loans that had material defects, misrepresentations, and fraud. This criticism misunderstands the structure of credit guarantees in the mortgage finance system. MI is not unconditional credit protection, nor are the guarantees of the GSEs, Federal Housing Administration ("FHA"), Veterans Administration ("VA"), U.S. Department of Agriculture Rural Housing Service ("USDA RHS"), Office of Public and Indian Housing ("PIH"), or Ginnie Mae. Public and private single-family residential mortgage guarantors alike enforce eligibility requirements and reserve the right to seek remedies when origination representations prove false.

There is a large body of post-crisis research that chronicles the scale of GFC-era mortgage fraud. Across private-label residential mortgage-backed securities ("RMBS"), approximately 50% of loans had at least one form of misrepresentation in property value, second lien, or owner occupancy – not including income and asset misrepresentation – which drove rates higher still.[23] This fraud was often committed by

[21] 2025 Update of Mortgage Insurers as Enterprise Counterparties, Federal Housing Finance Agency Office of Inspector General, March 19, 2025, https://www.fhfaoig.gov/sites/default/files/WPR-2025-001.pdf.

[22] Ibid.

[23] John M. Griffin and Gonzalo Maturana, "Who Facilitated Misreporting in Securitized Loans?", The Review of Financial Studies, Volume 29, Issue 2, pp. 384–419, February 2016, https://ssrn.com/abstract=2256060. Income and asset misrepresentation rates

originators whose incentives were misaligned by a compensation and securitization structure that separated loan origination from the economic consequences of default. Private mortgage insurers could not have anticipated the risk of loans whose origination characteristics were systematically misrepresented. Like the GSEs and government loan program guarantors, private MI companies extended coverage based on representations about loan quality that subsequent litigation, federal investigation, and tens of billions of dollars in U.S. Department of Justice ("DOJ") settlements established were false.

In 2014, under the stewardship of the Federal Housing Finance Agency ("FHFA") and the GSEs, the MI industry implemented a uniform master policy that was further revised in 2020. The industry's uniform master policy standardizes rescission relief terms and life-of-loan coverage exclusions across all six GSE-eligible MI companies and harmonizes those terms with the GSEs' revised representations and warranties framework.

---

discussed in John M. Griffin, "Ten Years of Evidence: Was Fraud a Force in the Financial Crisis?", Journal of Economic Literature, Vol. 59, pp. 1293–1321, December 2021, https://www.aeaweb.org/content/file?id=13538.

SECTION II. THE MONOLINE MI BUSINESS MODEL IS UNIQUELY AND STRUCTURALLY BUILT TO WITHSTAND SEVERE, CATASTROPHIC REAL ESTATE CYCLES

The wrong-way risk concern – that MI companies will be unable to perform precisely when they are most needed to pay claims – fundamentally misunderstands how the monoline MI regulatory framework operates. The MI model is resilient because of its structure, not despite it. The industry's regulatory architecture is specifically designed to ensure that MI companies hold their maximum available capital at the moment of peak claims exposure.

The Countercyclical Capital Engine: The Contingency Reserve

The foundational capital-building mechanism of the monoline MI model is the contingency reserve (also referred to as the "10-year reserve") – the statutory requirement that a monoline MI contribute 50% of net earned premium to a restricted reserve that cannot be withdrawn for 10 years except when annual incurred losses exceed 35% of net premium earned in a calendar year or, additionally under Wisconsin statutes that apply to MGIC, 70% of the annual amount contributed to the contingency reserve. The mechanics are straightforward and countercyclical by design. During the years of strong real estate economic fundamentals when claim incidence is typically low, the contingency reserve accumulates. By the time a real estate cycle turns, the MI company has years of accumulated, restricted reserves available to absorb losses.

The Great Financial Crisis tested this mechanism under conditions that exceeded any precedent since the MI industry's founding. At the time, three of the eight active monoline MI companies entered regulatory proceedings and continued paying claims as the state regulatory framework functioned as designed. The five companies that did not enter regulatory proceedings paid claims in full throughout the crisis.

The Sequential Reserving Cascade

Beyond the contingency reserve, monoline MI companies are required to establish and maintain four distinct categories of loss reserves, each triggered at a different stage of the default lifecycle. This sequential reserving cascade ensures that capital is progressively set aside long before a claim is filed, providing multiple layers of advance warning and capital allocation as each loan's risk status evolves.

- Incurred But Not Reported ("IBNR") Reserves. IBNR reserves are established for delinquencies estimated to have occurred prior to the close of an accounting period but not yet reported to the insurer. Because borrower default typically precedes the filing of a notice of delinquency ("NOD") with the insurer, IBNR reserves represent the first layer of the reserving cascade – capital set aside in anticipation of reported delinquencies that have not yet materialized in the insurer's records.

- Case-Based Reserves. Once an NOD is received and a loan is added to the insurer's delinquency inventory, case-based reserves are established by estimating (a) the probability that the delinquent loan will result in a claim payment (the incidence of loss) and (b) the expected amount of that claim payment (the severity of loss). Case-based reserves are established based on historical experience and adjusted as default status worsens and as macro conditions change.

- Loss Adjustment Expense ("LAE") Reserves. LAE reserves are established concurrently with case-based reserves to cover the estimated costs of settling claims, including legal and other expenses and the costs of administering the claims settlement process.

- Premium Deficiency Reserves. After loss reserves are established, an MI company performs premium deficiency testing by comparing the present value of expected future losses and LAE

against the present value of expected future premium, existing reserves, and anticipated investment income. If the former exceeds the latter, a premium deficiency reserve is established.

By the time an MI company receives a claim on a defaulted loan, it will have been observing that loan's deterioration for months or years and will have been progressively increasing its reserve allocations. Under uniform MI master policy terms, a claim is filed and perfected following resolution of the default through a recognized disposition event such as a completed foreclosure and title acquisition by the lender, a third-party sale at the foreclosure auction, a deed-in-lieu of foreclosure, or an approved pre-foreclosure sale (a "short sale"). Upon disposition, the MI company's obligation is calculated under one of several contractually defined settlement options; the third-party sale option in which the insurer pays the actual loss (comprised of the UPB, eligible expenses, and accrued interest less net proceeds) for properties that are sold prior to claim disposition; the percentage option in which the insurer pays the specified coverage percentage of the calculated loss (comprised of the UPB, eligible expenses, and accrued interest); or the acquisition option in which the insurer acquires title and pays the full calculated loss.[24]

During the GFC, the average time between a borrower's first missed payment and the filing of an MI claim exceeded 40 months. This was driven primarily by three factors: (a) the historically unprecedented volume of simultaneous foreclosures overwhelming the legal system, particularly in judicial foreclosure states where court-supervised proceedings added 24 to 36 months to the foreclosure timeline; (b) mandatory loss mitigation requirements under evolving GSE servicing guidelines and federal law that required servicers to pursue modifications and alternatives before proceeding to foreclosure; and (c) servicer operational capacity constraints under the sheer volume of delinquencies.

The timeline does not disadvantage bank policyholders. In fact, a bank holding an insured loan may reflect expected MI recoveries in its Current Expected Credit Loss ("CECL") estimates, reducing its required Allowance for Credit Losses ("ACL") relative to an otherwise identical uninsured loan. The bank's net economic exposure is lower from the moment MI coverage is in place, regardless of when the claim is filed.

The timeline from the moment of default to ultimate claim payment is not specific to MI-backed loans. A bank without MI faces the same foreclosure timeline and simply absorbs the full loss at the end rather than having MI cover a portion of it. MI does not slow the bank's recovery; it ensures the bank's recovery within a contractually defined period. Under the MI industry's uniform master policy, a claim payment is generally due within 60 days of the Perfected Claim Date, defined as the date on which the insurer has received all documentation required to settle the claim. This contractually defined payment timeline provides the insured party with a bounded and predictable recovery following disposition.

Investment Limitations: Regulatory Elimination of Wrong-Way Asset Risk

The wrong-way risk concern that motivated the Banking Agencies' eligible guarantor exclusion has two components: (a) the risk that the guarantor's liabilities will increase in a stress scenario (the liability side), and (b) the risk that the guarantor's assets will simultaneously decrease in value in that same stress scenario (the asset side). The monoline MI regulatory framework addresses both components.

On the asset side, Section 9 of the NAIC Mortgage Guaranty Insurance Model Act ("Model Act") prohibits a mortgage guaranty insurance company from investing in notes or other indebtedness secured by a mortgage or other lien upon real property, effectively barring MI companies from holding the same residential mortgage credit risk they insure, unless the securities carry the direct or effective guaranty of the U.S. government.[25] This investment prohibition, combined with the PMIERs Available Assets framework's

---

[24] The uniform master policy also provides a limited anticipated loss option ("ALO") where the insurer pays the estimated net loss in lieu of acquisition.

[25] NAIC Mortgage Guaranty Insurance Model Act, Model No. 630, § 9 (Investment Restrictions), "A mortgage guaranty insurance company shall not invest in notes or other evidence of indebtedness secured by a mortgage or other lien upon real property"; id. §

exclusion of non-agency RMBS, structurally eliminates the asset-side correlation risk that contributed to the failure of monoline bond insurers during the GFC. Bond insurers had invested in the very subprime RMBS they were wrapping, doubling their exposure to catastrophic losses through a feedback loop in which declining housing market conditions simultaneously increased their claim exposure and decreased the value of their invested assets. The regulatory monoline MI investment limitations prohibit such a feedback loop.

Concentration Limits, Risk-to-Capital Constraints, and Regulatory Capital Oversight

The Model Act imposes geographic concentration limits and single-risk limits designed to prevent overexposure to any one market or borrower. No more than 20% of a mortgage guaranty insurance company's total insurance in force may be written in any single metropolitan area, and no single risk may expose the company to a loss exceeding 10% of its policyholders' surplus.[26] These limits are designed to ensure that even a severe regional housing downturn of the type experienced in specific markets during the Great Financial Crisis cannot by itself threaten an MI company's solvency.

The 25-to-1 risk-to-capital ceiling – the regulatory maximum ratio of total outstanding net liability to capital, surplus, and contingency reserve – imposes an absolute constraint on how much risk a monoline MI company may carry relative to its capital base. In practice, state regulators have intervened and required companies to cease writing new business before approaching this limit. PMI, RMIC, and Triad each entered run-off or regulatory supervision at risk-to-capital ratios materially below 25-to-1, demonstrating that state oversight functions as an active, forward-looking constraint rather than a passive backstop. MGIC's risk-to-capital ratio of 9.6-to-1 as of March 31, 2026, represents operation at less than half the statutory maximum, reflecting deliberate capital management under a framework specifically designed to maintain that buffer.

ORSA Stress Testing: Demonstrated Catastrophic Loss-Absorbing Capacity

State commissioners of insurance require monoline MI companies to annually perform an Own Risk and Solvency Assessment ("ORSA") that includes rigorous stress testing designed to demonstrate continued ability to meet policyholder obligations in catastrophic loss scenarios. MGIC's ORSA stress testing incorporates quantitative evaluations equivalent to, or more severe than, the Dodd-Frank Act Stress Test ("DFAST") and the Comprehensive Capital Analysis and Review ("CCAR") severely adverse scenarios used by the Federal Reserve to evaluate large bank capital adequacy.

ORSA stress tests commonly include scenarios involving a replay of GFC-level home price declines and unemployment rate increases, as well as more prolonged and severe scenarios involving deeper and more sustained economic contractions. The Banking Agencies themselves impose equivalent stress testing requirements on the large banks that are some of MGIC's primary policyholders. MGIC respectfully submits that if DFAST/CCAR-equivalent stress testing is the standard by which large bank capital adequacy is assessed, the same framework should inform the Banking Agencies' assessment of MI companies' creditworthiness as eligible guarantors. An MI company that can demonstrate DFAST/CCAR-equivalent stress capacity has met the substantive standard that the eligible guarantor exclusion was designed to ensure.

2(L), defining "effective guaranty" as "the assumed backing of existing or future holders of securities by virtue of their issuer's conservatorship or perceived access to credit from the U.S. Treasury"; https://content.naic.org/sites/default/files/inline-files/05%20-%20Model%20%23630%20-%20Clean%20version.pdf.

[26] NAIC Mortgage Guaranty Insurance Model Act, Model No. 630, § 5 (Risk Concentration), "A Mortgage Guaranty Insurance company shall not expose itself to any Loss on any one Authorized Real Estate Security risk in an amount exceeding ten percent (10%) of its surplus to policyholders"; id. § 7 (Geographic Concentration), "No Mortgage Guaranty Insurance company shall have more than twenty percent (20%) of its total insurance in force in any one Standard Metropolitan Statistical Area (SMSA), as defined by the United States Department of Commerce"; https://content.naic.org/sites/default/files/inline-files/05%20-%20Model%20%23630%20-%20Clean%20version.pdf.

How Monoline Bond Insurance Failed and Why It Is Not Analogous to MI

A persistent source of confusion in discussions of MI and bank regulatory capital is the conflation of monoline mortgage insurance with monoline bond insurance. These are distinct industries with distinct regulatory frameworks that produced dramatically different loss outcomes as a result of the Great Financial Crisis.

In the run-up to the GFC, monoline bond insurers transformed their business models, shifting from their historical core of insuring municipal bonds to insuring subprime and Alt-A RMBS, wrapping collateralized debt obligations ("CDOs") backed by subprime and Alt-A RMBS, and acting as counterparties in credit default swaps ("CDSs") backed by subprime and Alt-A collateral. This transformation was accompanied by two structural failures that proved fatal. First, the bond insurance regulatory framework imposed investment limitations that were materially less restrictive than those governing monoline MI companies, and several bond insurers invested in the very subprime and Alt-A RMBS they were insuring, doubling their housing market exposure and creating the wrong-way risk feedback loop that the MI framework is designed to prevent. Second, many of the CDS contracts in which bond insurers participated embedded collateral posting requirements triggered by rating downgrades, forcing the insurers to post billions of dollars in collateral essentially overnight once downgrades began and created a liquidity crisis with no parallel in the MI model.

When the market value of bond insurance-wrapped securities collapsed during the GFC, banks were forced to mark down those securities immediately and before any actual payment shortfalls had surfaced in the underlying RMBS trusts. This is the paradigmatic case of wrong-way risk: the counterparty's creditworthiness collapsed at the exact moment of peak need and banks bore immediate mark-to-market losses. The majority of active monoline bond insurers went into run-off, filed for bankruptcy, or ceased writing new business. In contrast, the monoline MI industry paid more than 96% of approved claims and continued writing new business throughout the crisis. The divergent outcomes are largely the product of structural differences in regulatory design.

Today, three rated bond insurers remain active and are refocused on municipal bonds and infrastructure finance, with enhanced capital requirements and limitations on structured finance exposure. The Banking Agencies' awareness of the GFC-induced failure of monoline bond insurers was well-founded and appropriate; however, the monoline MI industry should be evaluated on its own crisis-era record and merit, in addition to subsequent developments that have further strengthened the industry’s resilience.

How MI Companies Became Monoline: The Alger Report and a Tale of Two Crises

The modern private MI industry's structural resilience was not accidental. It was engineered deliberately, from the wreckage of a prior collapse and in direct response to one of the most consequential regulatory inquiries in American financial history: the 1934 Report of George W. Alger (the “Alger Report”) examining the failure of every mortgage guaranty firm in the state of New York.

The pre-Great Depression mortgage guaranty industry bore no resemblance to the modern MI industry. The companies were not monoline insurers; they were vertically integrated conglomerates that originated loans, held them, sold them to the public, and simultaneously guaranteed them. They used mortgage guaranty insurance as a sales tool instead of segregating it from other lines and managing it as a meaningful risk mitigation mechanism. Their capital structure was inadequate. New York state law required reserves equal to two-thirds of capital stock, a figure bearing no relationship to the volume of guarantees outstanding. Guaranty volume could grow without limit and reserves could be fully invested in the very mortgages being guaranteed – like the pre-Great Financial Crisis bond insurance industry – meaning they were most likely to lose value precisely when claims arose. By the end of 1933, all 50 New York mortgage guaranty firms had failed.

The Alger Report's forensic examination of this epic collapse produced two foundational lessons that Max Karl embedded into MGIC when he founded the company in 1957, and that are embedded into the industry’s regulatory framework today. First, reserves must be calibrated to exposure, not to paid-in capital. Risk in force cannot be permitted to grow faster than the capital standing behind it. Second, the mortgage insurance function must be structurally separated from loan origination and other lines of business, and limitations need to be in place to prohibit investment practices that intensify positive correlation and wrong-way risk. In 1956, as a precondition for MGIC's charter, Wisconsin enacted legislation that codified both principles. The Great Financial Crisis subjected the modern-day MI industry to the same category of severe stress that had destroyed its predecessor eight decades earlier. The result was materially different as the modern MI industry paid 96% of approved claims in the immediate aftermath of the crisis.

SECTION III. THE POST-CRISIS REGULATORY OVERHAUL STRENGTHENED EVERY PARTICIPANT IN THE MORTGAGE FINANCE ECOSYSTEM, INCLUDING MORTGAGE INSURERS

The GFC was a systemic failure rooted in deteriorating origination standards, misaligned securitization incentives, deficient credit ratings, and inadequate regulatory oversight across virtually every node of the mortgage finance ecosystem. The regulatory response was the most comprehensive overhaul of U.S. financial regulation since the New Deal, touching every participant. The monoline MI industry emerged from this process significantly stronger.

Below is a summary of key, landscape-changing reforms:

- **Origination.** Nationwide originator licensing (SAFE Act, 2008); mandatory ability-to-repay determinations (ATR/QM Rule, 2014); national mortgage servicing standards with dual-tracking restrictions (Mortgage Servicing Rules, 2014); prohibition on loan officer compensation tied to loan terms (LO Compensation Rule, 2014); strengthened appraisal independence and integrated borrower disclosures (TRID, 2015).

- **Secondary Market.** Dodd-Frank credit risk retention requiring securitizers to retain 5% of securitized credit risk (2015); GSE revised representations and warranties framework providing mortgage originators relief tied to loan manufacturing quality and performance (2013); GSE CRT programs transferring hundreds of billions in mortgage credit risk to private reinsurers and debt markets (beginning 2013).

- **GSEs.** HERA (2008) established FHFA as a significantly strengthened conservator and regulator (replacing the Office of Federal Housing Enterprise Oversight, or "OFHEO"); the ongoing GSE conservatorship has driven continuous capital, underwriting, and credit risk management reforms; FHFA's Enterprise Regulatory Capital Framework (ERCF, 2021) established the most granular, risk-sensitive single-family residential mortgage capital framework currently in operation within the U.S. mortgage finance system.

- **Banking.** Dodd-Frank (2010) established the Financial Stability Oversight Council ("FSOC") and imposed enhanced prudential standards for systemically important institutions; TARP (2008) stabilized more than 700 banks; Basel III (2013) replaced a capital regime the Agencies themselves acknowledged was inadequate; Globally Systemically Important Bank ("G-SIB") surcharges (2015), Total Loss-Absorbing Capacity ("TLAC") and Long-Term Debt ("LTD") requirements (2016), and the Stress Capital Buffer (2020) added further resilience.

- **Monoline MI.** PMIERs (2015, revised 2018, 2020, and 2024), which function as the operative capital standard for GSE-eligible MI companies, established a loan-level, risk-factor-weighted Minimum Required Assets framework that requires MI companies to hold materially more capital than they had maintained under prior informal GSE financial requirements, and more capital than is required under state regulation. PMIERs is a capital framework specifically calibrated to the cyclical risk profile of mortgage insurance. The NAIC revised its Mortgage Guaranty Insurance Model Act (2023) to strengthen capital, contingency reserve, investment limitation, and reinsurance requirements; and the uniform MI master policy (2014, revised 2020) standardized rescission relief and coverage terms across all GSE-eligible MI companies, synchronized with the GSEs' revised representations and warranties framework.

Reform Category	Key Legislation / Rule	Primary Participants Affected
Mortgage Origination	SAFE Act; ATR/QM Rule; Mortgage Servicing Rules; LO Compensation Rules; Appraisal Rules; TRID	Originators, brokers, servicers, lenders
Securitization / Secondary Market	Dodd-Frank Credit Risk Retention / QRM Rule; GSE Rep & Warranty Framework; GSE CRT Programs	Securitizers, GSEs, investors, rating agencies
GSE / Government Housing Finance	HERA; GSE Conservatorship; Enterprise Regulatory Capital Framework (ERCF)	Fannie Mae, Freddie Mac, FHFA, FHA, VA
Prudential Banking / Systemic Risk	Dodd-Frank; EESA / TARP; Basel III Final Rule; G-SIB Surcharge Rule; TLAC / LTD Rule; Stress Capital Buffer Rule	Banks, bank holding companies, systemic institutions
Monoline Mortgage Insurance	PMIERs (2015, 2018, 2020, 2024); NAIC Model Act Revision (2023); Uniform MI Master Policy (2014, 2020)	Monoline MI companies, GSE-eligible insurers

MGIC's capital position today is heavily influenced by the post-crisis reforms, namely PMIERs. The following table presents MGIC's key capital and financial position metrics as of March 31, 2026, reflecting the cumulative effect of nearly a decade of PMIERs compliance, active capital management, and systematic and disciplined risk transfer:

Financial Metric	As of March 31, 2026
Primary insurance in force	$302.7 billion
Primary risk in force	$81.2 billion
Number of insured mortgages	~1.1 million
PMIERs available assets	$5.8 billion
PMIERs excess over Minimum Required Assets	$2.9 billion
Reinsurance PMIERs credit capacity	$3.1 billion
Risk-to-capital ratio (statutory)	9.6-to-1 (vs. 25.0-to-1 statutory maximum)
Policyholder position (Wisconsin MPP basis)	$5.9B ($3.8B above required $2.1B)
Moody's financial strength rating (MGIC)	A2 (upgraded from A3, 2025)
Moody's senior unsecured debt (MGIC Investment)	Baa2 / investment grade (upgraded from Baa3, 2025)
Full-year 2025 net income	$738.3 million
New insurance written (2025)	$60.2 billion

MGIC's 9.6-to-1 risk-to-capital ratio reflects the impact of our active CRT program. Since 2015, MGIC and the broader industry have transferred risk systematically to global reinsurance and capital markets through quota share and excess-of-loss reinsurance arrangements and ILN issuances, building on PMIERs' formal recognition and credit for risk transfer as a capital management tool. Through March 31, 2026, $3.2 billion in PMIERs' capital was provided by various reinsurance transactions, equivalent to approximately 52% of the gross PMIERs requirement, covering 89% of MGIC's direct risk in force across the 2020 through 2025

vintages. The cumulative effect is a capital position that is significantly diversified and stronger than MGIC’s pre-crisis position, and more diversified and stronger than anything that existed before the post-crisis reform era began.

MGIC's current capital composition reflects a deliberate diversification across three distinct sources – equity capital, debt capital, and reinsurance capital – that collectively provide resilience across real estate and economic cycles. A key structural feature of MGIC's reinsurance program is the forward placement mechanism through which reinsurance treaties are contracted. MGIC's reinsurance treaties are structured as forward fill-up agreements in which the pricing, terms, attachment points, and detachment points are established at the time the treaty is executed, and the treaty then “fills up” with newly insured loans over a defined period (typically one to two years.) By locking in the terms of reinsurance protection before the reference pool of insured loans is fully filled, MGIC ensures that its reinsurance capital is predominantly sourced during periods of relative market stability rather than during a housing market downturn, when the cost of protection would be at its highest.

SECTION IV. PROPOSED MODIFICATIONS TO THE BANK REGULATORY CAPITAL RULES, INCLUDING THE RISK-BASED CAPITAL FRAMEWORK

MGIC appreciates that the Banking Agencies have directly invited input on how to recognize the loss coverage benefit of private mortgage insurance in the determination of risk-based capital requirements, specifically through Question 8 of the SA NPR and Question 21 of the ERBA NPR. This invitation reflects the Agencies' recognition that the existing treatment of MI in the bank capital framework warrants reconsideration, and MGIC welcomes the opportunity to provide a detailed and evidence-based response.

The Banking Agencies have signaled a desire to increase risk sensitivity across asset classes while avoiding excessive capitalization that increases borrowing costs and constrains credit availability. MGIC's recommendations in this Section are designed to advance those objectives with respect to single-family residential mortgage exposures, and to do so in a manner that is consistent with the Basel international standard, more closely aligned with the GSEs' own risk-based capital framework, and reflective of the demonstrated loss-absorbing benefit that private mortgage insurance provides to bank policyholders.[27]

Before setting forth our specific recommendations, it is useful to summarize how the NPRs address residential mortgage risk weights and the recognition of MI, and how that treatment compares to the current U.S. capital rule and the Basel international standard. Both the ERBA NPR and the SA NPR propose six LTV buckets for determining the risk weight of single-family residential mortgage exposures whose repayment is not dependent on cash flows generated by the collateral property. The treatment differs slightly between the two NPRs:

- Under the ERBA NPR, risk weights are fully aligned with the Basel international standard for each of the six LTV bucket and the 2023 NPR's 20 percentage point "gold-plated" upward deviation from Basel has been removed.
- Under the SA NPR, the proposed risk weight for each of the six LTV buckets is 5 percentage points higher than the Basel international standard. The proposed Standardized Approach does not incorporate an operational risk capital component as proposed in ERBA, and thus the risk weights in each LTV bucket have been increased 5 percentage points above the ERBA risk weights. For comparison, the current Standardized Approach applies a 50% risk weight to all single-family residential mortgages that are prudently underwritten and a 100% risk weight to all that are not prudently underwritten.[28]

MGIC's recommendations are built on this framework. The six-LTV bucket approach not only aligns with the Basel international standard, it also more closely aligns with the GSEs' Enterprise Regulatory Capital Framework ("ERCF"), which is the most granular and risk-sensitive capital regimen in the U.S. single-family residential mortgage finance ecosystem. In building on the Banking Agencies' proposed framework, our recommendations provide appropriate risk-based capital credit for MI and eligible guarantees – creating

[27] The Banking Agencies have stated that the Proposals would "modestly reduce capital requirements for large banks and moderately reduce requirements for smaller banks." Federal Reserve Board, press release, March 19, 2026, available at https://www.federalreserve.gov/newsevents/pressreleases/bcreg20260319a.htm. The CET1 reduction estimates are drawn from the Federal Reserve staff memorandum accompanying the Proposals.

[28] 12 CFR Part 3, Appendix A (OCC); 12 CFR Part 217 (Federal Reserve); 12 CFR Part 324 (FDIC). The term "prudently underwritten" is not independently defined in the capital rules but is determined by cross-reference to the Interagency Guidelines for Real Estate Lending Policies. See Interagency Guidelines for Real Estate Lending Policies, 12 CFR Part 365, Appendix A (FDIC); 12 CFR Part 208, Appendix C (Federal Reserve); 12 CFR Part 34, Appendix A (OCC). Under those Guidelines, a residential mortgage loan secured by an owner-occupied 1-to-4 family property is prudently underwritten if, among other criteria, it has a loan-to-value ratio at origination of less than 90%, unless the excess LTV is covered by private mortgage insurance or readily marketable collateral sufficient to reduce the bank's exposure below the 90% threshold.

greater alignment with ERCF in terms of the risk-based capital benefit the GSEs receive when an acquired loan has private MI, and also when they offload risk into the reinsurance and debt markets through CRT transactions. The ERCF was deliberately architected on the chassis of the U.S. banking regulatory capital framework – incorporating Basel III's definitions of CET1, Tier 1, and adjusted total capital, risk-based and leverage capital requirements, and capital buffers – to ensure structural comparability with, and inspire confidence in, the GSE framework among banking regulators and market participants alike.[29] FSOC itself encouraged FHFA and the Banking Agencies to "coordinate and take other appropriate action to avoid market distortions that could increase risks to financial stability by generally taking consistent approaches to the capital requirements and other regulation of similar risks across market participants."[30] In proposing more granular LTV-based risk-weight buckets, the NPRs move decidedly in the direction advocated by FSOC and other market participants – a direction MGIC supports.

Our recommendations also provide greater alignment with the evolving treatment of MI in loss coverage models used by Nationally Recognized Statistical Rating Organizations ("NRSROs") to establish credit ratings for private-label RMBS. The major credit rating agencies independently recognize private MI as a credit enhancement that reduces modeled loss severity and required subordination levels in rated RMBS; and the loss-mitigating value these rating agencies apply to MI has increased since the Great Financial Crisis – largely in response to PMIERs, the uniform master policy, and the industry's significant financial strength. S&P, DBRS, and Fitch each apply counterparty-risk-adjusted haircuts subject to rating agency-specific assumptions – pertaining to insurer credit quality, operational risk, claim adjustments, exception rates, and claim rejection rates – to the amount of MI credit recognized in their loss severity adjustment in their structured finance rating methodologies. The rating agencies' methodologies indicate maximum MI credit may reach 90% to 100% for tranches with ratings equivalent to the financial strength rating of the insurance provider. For MGIC, based on our financial strength ratings, these are the structured finance tranches commonly in the first-loss and mezzanine exposure layers.

***

MGIC Recommendation No. 1: Expand the Recognition of the Demonstrated Loss-Mitigating Benefit of MI Across the Entire LTV Spectrum and Apply a Haircut Aligned with Historical Claims-Paying Performance for Monoline MI Companies Meeting Specific Eligibility Criteria

The NPRs persist the existing treatment of MI under the prudently underwritten requirements. Under these requirements, a loan with an original LTV ("OLTV") of 90% or greater is assigned a 100% risk weight unless its risk is mitigated with mortgage insurance or readily marketable collateral. The language does not specify the amount of MI but it implies that the bank can recategorize a loan as "prudently underwritten" if it reduces its exposure to less than 90% – the exposure it would have if the loan was originated with an LTV of less than 90% in the first place:

> *A loan-to-value limit has not been established for permanent mortgage or home equity loans on owner-occupied, 1- to 4-family residential property. However, for any such loan with a loan-to-value ratio that equals or exceeds 90 percent at origination, an institution should require*

[29] FHFA, Enterprise Capital Requirements, available at https://www.fhfa.gov/supervision/fannie-mae-and-freddie-mac/capital-requirements ("Like the U.S. Banking Framework, the ERCF includes risk-based and leverage capital requirements, capital buffers, and definitions for available capital."). The ERCF's capital planning requirements were subsequently aligned with those applicable to large bank holding companies. Enterprise Regulatory Capital Framework: Prescribed Leverage Buffer Amount and Credit Risk Transfer, 87 FR 15424 (Mar. 16, 2022).

[30] Financial Stability Oversight Council, Statement on Activities-Based Review of the Secondary Mortgage Market (Sept. 25, 2020), quoted in Enterprise Regulatory Capital Framework, 85 FR 82150, 82155 (Dec. 17, 2020); see also FSOC, 2022 Annual Report (recommending that member agencies "leverage existing authority to ensure that the same activity with the same risk, when conducted by different entities, has the same regulatory outcome").

appropriate credit enhancement in the form of either mortgage insurance or readily marketable collateral.[31]

With this guidance, and in partnership with bank portfolio lenders, mortgage insurers have developed coverage thresholds that ensure a bank's exposure on a loan with an OLTV of 90% or greater is explicitly reduced to less than 90%. This practice has developed over the course of 34 years since the concept of "prudently underwritten" was first introduced into bank capital rules as part of the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") and the resulting Interagency Guidelines for Real Estate Lending Policies.[32]

While banks can take credit for MI in meeting the prudently underwritten requirements, the Banking Agencies have clarified that this treatment does not constitute recognition of monoline MI companies as eligible guarantors, so all other benefits to banks relative to risk-based capital and stress-loss analysis conferred upon eligible guarantors do not apply in the instance of monoline MI. The SA NPR states that "a banking organization would not be permitted to recognize private mortgage insurance when calculating the LTV ratio." This statement is scoped to the LTV ratio calculation used to select a risk weight from the newly proposed risk-weight tables, not to the threshold determination of whether a loan qualifies as prudently underwritten. The Banking Agencies explicitly preserve MI's existing gateway role in the prudently underwritten determination, and MGIC supports this continued recognition of MI's loss mitigating benefit.

The NPRs do not propose that banks receive credit for MI on loans with LTVs of less than 90%, however, Question 8 of the SA NPR and Question 21 of the ERBA NPR seek comment on how MI coverage could be factored into the risk-based capital calculation for loans across the Banking Agencies' proposed six LTV risk-weight tiers. As part of these questions, the Agencies are seeking input regarding the level of haircut that would be appropriate for calculating the benefit of MI in determining risk-based capital:

SA NPR Question 8: The agencies have considered various alternatives relating to how private mortgage insurance should be recognized for residential mortgages exposures beyond the proposed treatment of considering private mortgage insurance when identifying which residential mortgage exposures meet the requirements to be considered prudently underwritten and eligible to use the proposed LTV-based approach. What would be the pros and cons of providing explicit recognition of private mortgage insurance in the calculation of LTV ratios for purposes of determining the risk weights for residential exposures? What, if any, increases in procyclicality and incentives for increased risk-taking by covered banking organizations might such recognition create? What conditions could the agencies impose on such recognition to mitigate concerns about the wrong-way risk of monoline credit insurance? In recognition that private mortgage insurance may not provide protection under all relevant stress events, what are the advantages and disadvantages of recognizing a portion (such as 50 percent) of the value of the private mortgage insurance in determining the total outstanding amount of the loan in the calculation of the LTV ratio? Please provide any data and analysis supporting alternative approaches.

The SA NPR seeks input on "providing explicit recognition of private mortgage insurance in the calculation of LTV ratios for purposes of determining the risk weights." This framing suggests the Banking Agencies are open to expanding the LTV-adjusting approach established in the prudently underwritten requirements (hereafter, the "MI-Adjusted Exposure LTV" approach), rather than pivoting toward the Basel international standard in which the risk weight for the OLTV is applied to an MI-adjusted loan balance exposure amount.

[31] 12 CFR Part 3, Appendix A (OCC); 12 CFR Part 217 (Federal Reserve); 12 CFR Part 324 (FDIC).

[32] Federal Deposit Insurance Corporation Improvement Act of 1991, Pub. L. No. 102-242, § 304, 105 Stat. 2236, 2354 (1991) (codified at 12 U.S.C. § 1828(o)) (directing the federal banking agencies to prescribe uniform real estate lending standards, including loan-to-value ratio requirements).

As such, MGIC proposes an MI-Adjusted Exposure LTV approach, in alignment with USMI and several other commenters, as it best aligns capital benefit with actual loss protection and results in applying risk weights already enumerated for each of the proposed six LTV tiers. MGIC submits that a bank that obtains more MI coverage should receive more capital benefit, and a bank that insures a loan with an OLTV below 90% should receive a lower risk weight than an uninsured loan with the same OLTV. Our recommendation for an MI-Adjusted Exposure LTV accomplishes these objectives.

Under the MI-Adjusted Exposure LTV approach, the MI coverage percentage is adjusted by the counterparty haircut factor (discussed later in this section) and the resulting net coverage benefit is deducted from the OLTV to derive an "Exposure LTV" used to determine the applicable risk weight from the Agencies' proposed LTV tables. For example, a bank obtaining 30% coverage on a 97% LTV loan with a 14.2% counterparty haircut applied would be assigned an MI-Adjusted Exposure LTV of 72.5%, calculated as 97% x (1 – (30% x (1 – 14.2%))). A bank obtaining 18% coverage on an 85% LTV loan would be assigned an MI-Adjusted Exposure LTV of 76.8%. This approach (a) rewards banks that obtain greater coverage by providing greater capital benefit; (b) extends the capital benefit of MI to all loans with MI coverage, regardless of OLTV; (c) results in the application of risk weights from the Banking Agencies' proposed risk-weight tables; and (d) is consistent with how banks are permitted to treat primary MI under the CECL standard in calculating lifetime expected credit losses for their ACL.

MGIC further proposes that, for purposes of the MI-Adjusted Exposure LTV calculation, the applicable risk weight for a loan with an OLTV exceeding 80% shall not be reduced to less than 35%. Private mortgage insurance operates as a co-insurance mechanism in which the MI company absorbs a defined first-loss layer while the lender/investor retains meaningful exposure to the loan. This co-insurance structure is economically significant in that the lender has a financial incentive to underwrite carefully, service diligently, and pursue loss mitigation aggressively on behalf of both itself and its MI counterparty, which is critically important to successful higher-risk high-LTV lending. It is the same "skin in the game" rationale that underlies the Dodd-Frank credit risk retention rule and the Basel Committee's post-crisis recognition, reflected in the securitization framework, that originators must retain economic exposure to the assets they underwrite to maintain sound credit standards.

The CECL accounting standard requires banks to estimate lifetime expected credit losses for each cohort of loans and to revise those estimates as economic conditions change. Many banks that retain insured loans in portfolio incorporate a reduction in their lifetime expected credit loss estimate in recognition of the loss-absorbing benefit of primary MI[33] documented through their own historical claim payout rates, GSE data sets, or internal counterparty evaluation practices. The MI-Adjusted Exposure LTV approach would bring regulatory capital treatment into alignment with this existing CECL practice, eliminating the anomaly in which a loss benefit recognized for reserving purposes is disregarded for capital purposes.

Additionally, because the ACL is funded through provision expense that reduces retained earnings and therefore reduces CET1 capital, a lower ACL on insured loans directly preserves the bank's highest-quality capital. Under the Basel III framework, only ACL up to 1.25% of risk-weighted assets may be counted as Tier 2 capital, meaning ACL above that threshold provides no capital credit. MI-driven reductions in the required ACL help keep banks within the range where their reserves provide maximum Tier 2 capital efficiency.

With respect to the Agencies' inquiry regarding an appropriate haircut on the loss coverage benefit of MI, MGIC believes that a 50% haircut is punitive and inconsistent with the industry's demonstrated historical claim payout performance. As noted earlier, the monoline MI industry paid more than 96% of approved

[33] FASB ASC 326-20-30-12 provides that "[t]he estimate of expected credit losses shall reflect how credit enhancements (other than those that are freestanding contracts) mitigate expected credit losses on financial assets," while expressly prohibiting an entity from offsetting its estimate of expected credit losses by "a freestanding contract (for example, a purchased credit-default swap) that may mitigate expected credit losses on the financial asset." FASB ASC 326-20-30-12 (as codified by ASU 2016-13 (June 2016).

claims in the immediate aftermath of the GFC, far greater than 50% which is the implied approved claim rate associated with a 50% haircut. A haircut calibrated against actual industrywide claim payout rates across the full GFC stress period would be materially lower than 50%. To that end, MGIC proposes a haircut not to exceed 14.2%, which is consistent with the haircut applied to MIs under the GSEs' ERCF for PMIERs-approved "high mortgage concentration" insurers with a Counterparty Rating of 4. In fact, the historical performance of MI would suggest that even a 14.2% haircut is conservative. The Milliman analysis's 97% crisis-vintage claim realization rate implies that the economically appropriate haircut – calibrated to actual GSE recoveries relative to contractual coverage – is approximately 3%, not 14.2%. MGIC proposes 14.2% as a deliberately conservative figure that defers to ERCF's existing calibration and achieves alignment across the two primary capital regimens in the mortgage finance ecosystem.

Because monoline MI companies are not eligible guarantors, banks subject to annual DFAST/CCAR stress testing may not incorporate MI's loss coverage benefit in their stress capital determinations. MI's recognition for CECL purposes, its limited recognition in the current risk-based capital framework, and its outright exclusion from DFAST/CCAR stress capital represents a three-way asynchrony that the MI-Adjusted Exposure LTV approach, combined with the eligible guarantor modifications proposed next, would resolve.

To facilitate the MI-Adjusted Exposure LTV approach, we provide draft language (see Appendix A) that could be inserted in "Mechanics for calculating risk-weighted assets for general credit risk" within Subpart D (Risk-Weighted Assets - Standardized Approach) of 12 CFR Part 3 – 12 CFR § 3.31 (OCC), 12 CFR § 217.31 (Federal Reserve), and 12 CFR § 324.31 (FDIC).

For the avoidance of doubt, MGIC notes that the SA NPR's proposed LTV framework, the Interagency Guidelines' prudently underwritten standard, and the current capital rule[34] together make clear that amortization of the outstanding balance cannot result in the reclassification of a residential mortgage exposure that is not prudently underwritten as prudently underwritten. The prudently underwritten standard pertains to the bank's underwriting and credit enhancement decisions, not a loan's subsequent payment performance and amortization. Should the Banking Agencies' final rule permit loans to step down into lower risk-weight LTV buckets through amortization, as proposed, we ask that it be clarified that such treatment applies only to loans classified as prudently underwritten as, we understand, is the intention of the Banking Agencies in the SA NPR.

***

MGIC Recommendation No. 2: Ensure a Viable Path for Financially Strong and Well-Capitalized Monoline MI Companies (and Other Qualified Insurers) to Become Eligible Guarantors and Qualify for the 'Corporate' 65% Risk Weight Under the Substitution Framework

The NPRs solicit input on only subpart (i) of the eligible guarantor definition – the unsecured investment-grade debt requirement. Subparts (ii) and (iii) are not addressed in the NPRs. Because the latter two subparts in their current form categorically bar monoline MI companies regardless of demonstrated financial strength or claims-paying performance, MGIC addresses all three subparts.

MGIC recommends the Banking Agencies consider modifications to the eligible guarantor definition[35] that convert categorical exclusions into facts-and-circumstances tests – creating a pathway to eligible status for qualified insurance industry participants, such as monoline MI companies – while continuing to facilitate the exclusion of insurers that exacerbate interconnectedness and systemic vulnerabilities with risk profiles that have not been appropriately mitigated. Monoline MI companies are currently excluded from the

[34] 12 CFR §§ 3.32(a), 217.32(a), and 324.32(a)

[35] OCC: 12 C.F.R. Part 3; Federal Reserve: 12 C.F.R. Part 217; FDIC: 12 C.F.R. Part 324.

eligible guarantor definition by a categorical bar in subpart (iii), which excludes "an insurance company engaged predominately in the business of providing credit protection (such as a monoline bond insurer or re-insurer)." This exclusion was emphasized, and "private mortgage insurers" were mentioned by name, in the narrative discussion of the Credit Risk Mitigation section of the final rule published Oct. 11, 2013, in the Federal Register.[36] The Banking Agencies stated in the narrative that "guarantees issued by these types of entities can exhibit wrong-way risk and modifying the definition of eligible guarantor to accommodate these entities or entities that are not investment grade would be contrary to one of the key objectives of the capital framework, which is to mitigate interconnectedness and systemic vulnerabilities within the financial system." [37]

In the ERBA NPR, the Agencies revisit this narrative in the context of Question 21, writing "Not recognizing private mortgage insurance for these purposes would be consistent with the current capital rule's definition of eligible guarantor, which does not recognize an insurance company engaged predominately in the business of providing credit protection (such as a monoline bond insurer or re-insurer)." While this comment references the subpart (iii) exclusion directly, the NPR footnotes this comment as follows: "A guarantor is not an eligible guarantor under the current capital rule if the guarantor's creditworthiness is positively correlated with the credit risk of the exposures for which it has provided guarantees," thus invoking subpart (ii) itself as an absolute categorical exclusion in the context of monoline MI.

MGIC fully supports reducing the U.S. banking system's exposure to positive correlation and wrong-way risk that has not been appropriately mitigated. The evidentiary record presented in Sections I through III of this letter demonstrates that monoline MI companies have in fact mitigated positive correlation and wrong-way risk, the two concerns that prompted the Banking Agencies to create the eligible guarantor definition in the 2013 Final Rule over a decade ago. The definition does not include monoline MI companies as a named eligible guarantor[38], and while it does not single out the monoline the MI industry by name as excluded, the language in subparts (ii) and (iii) has the practical effect of barring monoline MI companies.[39]

To level-set, for non-named entities, the eligible guarantor definition identifies three conjunctive criteria. The regulation states that "*an entity qualifies (other than a special purpose entity) if, at the time the guarantee is issued or anytime thereafter, it:*

> ***(i)*** *has issued and has outstanding an unsecured debt security that is investment grade;*
>
> ***(ii)*** *whose creditworthiness is not positively correlated with the credit risk of the exposures for which it has provided guarantees; 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).*"[40]

---

[36] "Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-Weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule," Federal Reserve System, 12 CFR Parts 208, 217, and 225 (RIN 7100-AD87), Federal Register Vol. 78, No. 198, pp 62104-62105.

[37] 78 FR 62018, 62141 (Oct. 11, 2013).

[38] Named entities under the current Eligible Guarantor definition include sovereigns, the Bank for International Settlements, the International Monetary Fund, the European Central Bank, the European Commission, Federal Home Loan Banks, the Federal Agricultural Mortgage Corporation (Farmer Mac), multilateral development banks, depository institutions, bank holding companies, savings and loan holding companies, credit unions, foreign banks, and qualifying central counterparties. Monoline MI companies are not among the named entities. OCC: 12 C.F.R. Part 3; Federal Reserve: 12 C.F.R. Part 217; FDIC: 12 C.F.R. Part 324.

[39] The Federal Reserve explicitly excludes any recognition of MI benefit for large banks subject to the annual or biennial CCAR/Stress Capital Buffer test and DFAST.

[40] 12 CFR § 217.2 (Federal Reserve); 12 CFR § 3.2 (OCC); 12 CFR § 324.2 (FDIC).

Subparts (ii) and (iii) of the Eligible Guarantor Definition

Given the performance of the MI industry in the aftermath of the GFC, its strong state regulatory framework, the post-crisis reforms implemented by the GSEs through PMIERs, the industry's systematic transfer of risk through reinsurance and debt market structures, the financial strength of the sector today, and the demonstrated ability of industry participants to withstand severely adverse stress scenarios and meet policyholder obligations, MGIC recommends that the Agencies revise subpart (iii) and, for subpart (ii), provide interpretive clarity or, alternatively, consider our proposed revised language.

Subpart (iii) disqualifies any entity predominantly in the business of providing credit protection. Applied to private mortgage insurers – an industry whose business model is providing credit protection on single-family residential mortgage loans – subpart (iii) acts as an absolute categorical bar with no mechanism for a financially sound, well-regulated, and well-capitalized monoline MI to demonstrate that its guarantee retains genuine economic value. To address this, MGIC respectfully requests the Banking Agencies to revise subpart (iii). Our proposed simple modification (as noted with underline below) is aligned with specific language proposed by USMI and the Reinsurers Association of America ("RAA"):

> **Subpart (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) <u>unless it has mitigated the associated risk</u>.*

Subpart (ii) asks a factual question: is the guarantor's creditworthiness positively correlated with the credit risk of the exposures it has guaranteed? For MGIC, the factual answer – supported by its 100% paid rate of approved claims – is that its creditworthiness is not positively correlated with the very risks it insures in a manner that undermines the economic value of the credit enhancement protection it provides. MGIC's creditworthiness is measured by its ability to meet policyholder obligations and continue writing new business during periods of severe stress, which is something MGIC has done continuously for nearly 70 years. MGIC respectfully requests that the Banking Agencies confirm, through interpretive guidance or preamble discussion in the final rule, that subpart (ii) is a facts-and-circumstances determination that a monoline MI company may satisfy through documentary evidence demonstrating that its capital structure, investment limitations, and demonstrated stress-scenario performance establish that the entity's creditworthiness is not positively correlated with the risks it insures in a manner that undermines the economic value of its guarantee. Such confirmation would align the regulatory treatment of MI with its demonstrated economic function and provide banks with the examination certainty necessary to extend eligible guarantor recognition to monoline MI companies.

In the alternative, should the Banking Agencies conclude that subpart (ii) as currently written does not permit banks to make a facts-and-circumstances determination in favor of monoline MI companies, MGIC proposes a simple modification that preserves the protection subpart (ii) was designed to provide – excluding guarantors whose creditworthiness is so tied to its insured risk as to materially reduce the economic value of the guarantee provided – while creating a pathway for MI companies that have empirically demonstrated the opposite. Our proposed modification (as noted with underline below) is aligned with specific language proposed by USMI:

> **Subpart (ii):** *whose creditworthiness is not <u>so</u> positively correlated with the credit risk of the exposures for which it has provided guarantees <u>as to materially undermine the value of the credit protection</u>.*

The case for both revisions is reinforced by the Milliman analysis. The Milliman paper provides evidence that private MI translated into paid claims at rates that preserved substantial economic value for the GSEs at the very time that value was most needed. According to Milliman, MI claim realization rates reached 97% during crisis-vintage stress, and this was the MI industry's performance *before* PMIERs was implemented.

The monotonic improvement in net severity with increasing coverage identified in the Milliman analysis demonstrates a systematic and predictable relationship between MI coverage and loss reduction, which is the hallmark of a functioning risk mitigation mechanism rather than one undermined by wrong-way risk and wholly determined by the mere presence of positive correlation.

Subparts (ii) and (iii) treat structural characteristics of a guarantor's business model as dispositive of the question of whether its credit protection retains economic value under stress without any mechanism for the guarantor to demonstrate that the structural concern has been adequately addressed. The subparts conflate business model with risk profile. For monoline MI companies, some degree of positive correlation is structurally inherent. A stress scenario that generates widespread mortgage defaults and declining home prices will, by definition, increase MI claims. The relevant question is not whether correlation exists but whether the guarantor has sufficient capital, risk management, and structural protections to perform despite that correlation.

The structural features of the MI business model discussed in Section II constitute genuine risk mitigation, and the existence of robust third-party risk-sharing attenuates the wrong-way risk concern by ensuring that a portion of MI exposure is borne by reinsurers and debt market participants. MGIC actively distributes its mortgage credit risk to diversified third-party participants through two complementary channels. In the traditional reinsurance market, MGIC has partnered with more than 20 multiline reinsurers across the global market, providing broad counterparty diversification and continuous access to capacity across the credit cycle through excess-of-loss and quota-share structures. In the capital markets, MGIC transfers risk through Insurance-Linked Note ("ILN") transactions that access broadly syndicated investors across multiple risk layers. The combination of quota-share reinsurance, which distributes risk pro rata from the first dollar of loss, and excess-of-loss structures, which provide tail protection above defined attachment points, ensures that MGIC's risk profile is neither concentrated in any single counterparty nor exposed to a single loss-absorbing mechanism. The result is a capital structure whose diversification spans counterparty, geography, structure, and risk layer.

The proposed modifications do not eliminate the protections they were designed to provide. An insurer that cannot demonstrate mitigation of wrong-way risk and positive correlation that undermines the value of their guarantee remains excluded. MGIC submits that it can make the necessary demonstration through the record presented in Sections I through III, supplemented by DFAST/CCAR-equivalent stress test results and the counterparty evaluation information described in the subpart (i) discussion below.

Subpart (i) of the Eligible Guarantor Definition

Subpart (i) requires the guarantor to have issued and to have outstanding unsecured debt that is investment grade. For virtually all insurers, debt is issued at the holding company level, not at the writing company level. However, because the debt is not issued at the writing company level, a bank applying subpart (i) as currently written could not formally count MGIC Investment's publicly rated debt as satisfying the criterion for MGIC (the writing company). We propose the following modification (as noted with underline) that is fully aligned with specific language proposed by USMI and RAA:

> **Subpart (i):** *has (or, if the entity is investment grade, is controlled by an entity that has) issued and has outstanding an unsecured debt security that is investment grade.*

The investment-grade standard applicable to the eligible guarantor determination under subpart (i) is set forth in 12 CFR § 3.2 (OCC), 12 CFR § 217.2 (Federal Reserve), and 12 CFR § 324.2 (FDIC), each of which defines investment grade as requiring that the risk of the entity's default is low and the full and timely

repayment of principal and interest is expected.[41] Pursuant to Section 939A of the Dodd-Frank Act, banks may not rely solely on ratings from NRSROs in making this determination but may use ratings as one input among multiple.[42 43]

MGIC submits that each of the following categories of evidence, individually and in combination, satisfies the investment-grade standard for a monoline MI company: (a) NAIC statutory financial statements demonstrating surplus, risk-to-capital ratios, and loss reserve adequacy; (b) FHFA-published PMIERs sufficiency certifications confirming Available Assets in excess of Minimum Required Assets; (c) AM Best, Moody's, or S&P financial strength ratings; (d) ORSA stress test results demonstrating continued claims-paying capacity under DFAST/CCAR-equivalent severely adverse scenarios; and (e) MGIC Investment Corporation's publicly rated Baa2/BBB- investment-grade unsecured debt, which under the proposed subpart (i) modification would satisfy the criterion. A bank that gathers and retains any reasonable combination of these items would meet its due diligence obligation under the proposed language. Items (a) through (d) would satisfy the assessment that the writing company is, in and of itself, investment grade; and item (e) would satisfy the requirement that the controlling entity has issued and has outstanding an unsecured debt security that is investment grade.

The proposed change expands on the one-prong test – which is unachievable for many writing companies – with a two-prong test that meets the unsecured investment-grade debt requirement while also affirming that the direct-writing company is, itself, investment grade in accordance with the Banking Agencies' existing guidance.

For direct-writing companies that can meet the one-prong test of having issued and having outstanding unsecured investment-grade debt and meeting the investment grade requirement in 12 CFR § 3.2, 12 CFR § 217.2, and 12 CFR § 324.2, there is no reason for the second prong of controlling entity investment-grade debt. This is important because direct-writing MI companies are not entirely without access to debt capital markets. State insurance law permits regulated insurance companies to issue surplus notes, and at least one MI company has utilized surplus notes in recent years. Surplus notes are subordinated debt instruments that, under statutory accounting principles applicable to insurance companies, are treated as surplus rather than as liabilities for regulatory capital purposes. Surplus notes are subject to prior approval by the domiciliary state insurance regulator, which must authorize both the issuance and any payments of interest or principal.[44] Because payments on surplus notes are subject to regulatory approval and are subordinate to all policyholder claims, surplus notes occupy a unique position in the capital structure of an insurance company, they function economically as hybrid capital instruments, sharing characteristics of both debt and equity from the perspective of the issuing company's capital adequacy. Should the Agencies implement the proposed language for subpart (i), we request that they provide an acknowledgement that investment-grade surplus notes issued and outstanding by a writing company satisfy the purpose of subpart (i) with no need for the bank to make a determination about the controlling entity's unsecured debt.

---

[41] Specific language: "Investment grade means the entity has adequate capacity to meet financial commitments for the projected life of the asset or exposure. An entity has adequate capacity to meet financial commitments if the risk of its default is low and full and timely repayment of principal and interest is expected."

[42] OCC Bulletin 2012-18 (June 26, 2012); Federal Reserve SR Letter 12-15 (Nov. 15, 2012).

[43] Section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, § 939A, 124 Stat. 1376, 1887 (2010) requires federal agencies to remove references to credit ratings from their regulations and to substitute alternative standards of creditworthiness. Banks making counterparty creditworthiness determinations are therefore required to exercise independent judgment and may not rely solely on NRSRO ratings.

[44] "PMI Group under severe financial stress: CreditSights," HousingWire, Sept. 16, 2011. Article notes that the Arizona Department of Insurance prohibited PMI from making payments on surplus notes upon placing it in supervision, underscoring the actions a state insurance regulator can take to preserve capital to meet policyholder obligations; https://www.housingwire.com/articles/pmi-group-under-severe-financial-stress-creditsights/.

In summation of our proposed changes to the eligible guarantor criteria, MGIC asserts that the results of a stress test equivalent to, or more severe than, the DFAST/CCAR severely adverse scenario should constitute significantly meaningful evidence to address all three modified subpart criteria simultaneously. An MI company that passes a DFAST/CCAR-equivalent stress test has demonstrated (a) it is creditworthy and financially sound, (b) its ability to meet obligations is not positively correlated with housing market risks it insures, and (c) it has mitigated wrong-way risk.

Loan-Level and Pool-Level Credit Protection May Be Recognized Simultaneously

MGIC's recommendations address distinct credit risk mitigation instruments that may coexist on the same underlying loan portfolio. Primary MI that is structurally and contractually attached to a specific residential mortgage loan at origination – the subject of Recommendation No. 1 – is most accurately recognized through the MI-Adjusted Exposure LTV approach, which reflects the coverage in the LTV calculation used to select an applicable risk weight from the proposed tables. A freestanding contract, such as an aggregate stop-loss policy providing credit protection on a reference pool of loans up to a defined aggregate loss limit – the subject of Recommendation No. 2 – is appropriately recognized through the substitution framework upon the mortgage insurer qualifying as an eligible guarantor.

Under the substitution framework, the pool exposure subject to an eligible aggregate stop-loss policy written by an eligible guarantor would receive the risk weight applicable to a corporate exposure for a company that is investment grade, provided the exposure is not a subordinated exposure. Under the ERBA NPR, the applicable risk weight would be 65%, and under the SA NPR it would be 95%. MGIC respectfully requests that the same 65% treatment be applied under the SA NPR for an investment-grade eligible guarantor. A 65% risk weight for investment-grade corporates is the Basel international standard; applying 95% to banks not bound by the proposed Expanded Risk-Based Approach that obtain identical coverage from an identical counterparty produces a competitive imbalance unsupported by any difference in actual risk exposure.

Loan-level primary MI is independently originated, priced on the characteristics of an individual loan, and structurally attached to that loan. Pool-level aggregate stop-loss protection is independently negotiated when the pooling decision is made and priced on aggregate pool performance rather than on the characteristics of any individual loan. A bank that acquires loan-level primary MI and subsequently pools those loans into a reference pool covered by an aggregate stop-loss policy is therefore entitled to recognize both the primary MI through the MI-Adjusted Exposure LTV approach for each individual loan, and the aggregate stop-loss through the substitution framework applied at the pool level. There is no double-counting because the two instruments cover fundamentally different units of risk. This treatment is directly analogous to how the GSEs structure their own credit risk transfer. Under ERCF, the GSEs receive capital credit for both loan-level MI coverage and pool-level CRT instruments simultaneously, without offset or netting. FSOC itself encouraged FHFA and the Banking Agencies to coordinate to avoid market distortions by generally taking consistent approaches to the capital requirements and other regulation of similar risks across market participants.[45] Disallowing simultaneous recognition of loan-level and pool-level credit protection in the bank capital framework would be directly at odds with the very direction FSOC encourages.

[45] See FSOC, supra note 30.

SECTION V. CONCLUSION

Nearly 70 years ago, Max Karl founded MGIC in Milwaukee with a simple but consequential insight drawn from the wreckage of the pre-Great Depression mortgage guaranty industry: that a company whose sole purpose is to absorb first-loss risk on residential mortgages, whose capital is required to accumulate during periods of housing market strength, and whose investments are prohibited from correlating with the risks it insures, will be structurally capable of performing its obligations when performing them matters most. That insight produced an industry.

The empirical record presented in this letter is not a projection or a model output. It is the actual loss performance of over 90 million loans drawn from the GSEs' own publicly available data, independently analyzed by a credentialed actuarial firm and covering the full arc of the modern mortgage credit cycle from 2000 through 2025. That record shows that private MI reduced net loss severity on insured high-LTV loans to below the gross loss severity experienced on lower-LTV loans that required no MI at all. It shows that paid MI claims represented 97% of contractual coverage on crisis-vintage originations, a realization rate consistent with recovery rates that rating agencies assign to AAA exposures. And it shows that the five MI companies that did not require regulatory proceedings paid claims in full throughout the worst housing downturn in eight decades, while the three that did require proceedings (and are no longer writing new coverage) continued paying claims in a supervised, orderly, and transparent manner.

The Banking Agencies' current treatment of private MI in the bank regulatory capital framework was calibrated against a perception of how the pre-reform MI industry performed in a pre-reform mortgage finance environment. It has now been 13 years since the current capital rule took effect, and the look-back at empirical evidence reveals that the perception of the MI industry in 2013 was misbegotten. Not only has the broader single-family residential mortgage landscape been fully reshaped through meaningful reforms, PMIERs has replaced informal GSE financial requirements with a rigorous, loan-level, risk-factor-weighted capital framework subject to continuous GSE oversight and is revised regularly to reflect evolving market conditions. The NAIC has strengthened the Model Act. The uniform master policy has standardized coverage terms. Bottom line: The MI industry that the Banking Agencies evaluated in 2013 when they adopted the capital rule and put in place the eligible guarantor exclusion is not the industry that stands before them today.

MGIC respectfully requests that the Banking Agencies adopt the recommendations set forth in Section IV. The MI-Adjusted Exposure LTV approach would more closely align the bank regulatory capital treatment of MI with three decades of empirical loss performance and with the treatment that the GSEs' ERCF already accords to private MI. The recommended modifications to the eligible guarantor definition would convert categorical exclusions into evidence-based standards, creating a viable path for financially strong monoline MI companies to facilitate credit risk transfer that reduces banking system interconnectedness.

Today's monoline MI industry was built on lessons extracted from the failure of a predecessor industry that was not founded on monoline principles. MGIC submits that the modern-day MI industry has been refined, strengthened, and tested across seven decades and 10 recessions. The Great Financial Crisis was a defining test and the record demonstrates it met that test. MGIC encourages the Banking Agencies to evaluate the industry as it is today and requests that the bank capital framework reflect what historical loan performance data reveals: that the MI industry held its own during the worst economic downturn in 80 years. The Alger Report's lessons – embedded in statute, regulation, and practice for nearly seven decades – are why.

Appendix A

Draft CFR Language for MI-Adjusted Exposure LTV

Placement Guidance

The following proposed regulatory text sets forth MGIC's amendment to the LTV ratio provision proposed in the SA NPR. Upon adoption, these provisions would be codified as follows, within Subpart D (Risk-Weighted Assets: Standardized Approach) of each agency's capital adequacy regulations, inserted immediately following the denominator provision of the LTV calculation at paragraph (c)(2) established by the SA NPR at 91 FR 15332:

> **OCC:**12 CFR §§ 3.31(c)(3)–(c)(6), within 12 CFR Part 3 *(Capital Adequacy Standards)*, Subpart D
>
> **Federal Reserve:** 12 CFR §§ 217.31(c)(3)–(c)(6), within 12 CFR Part 217 *(Capital Adequacy for Bank Holding Companies, Savings and Loan Holding Companies, and State Member Banks)*, Subpart D
>
> **FDIC:** 12 CFR §§ 324.31(c)(3)–(c)(6), within 12 CFR Part 324 *(Capital Adequacy)*, Subpart D

Note that 12 CFR § __.31(c) does not exist in the currently codified regulation. Paragraph (c) is being created by the SA NPR. Section numbers set forth below are illustrative and it is our expectation that the Banking Agencies would assign final numbers consistent with the codification structure of the final rule.

Existing Proposed Language (SA NPR § __.31(c)

(c) **Loan-to-value ratio.** For purposes of determining the applicable risk weight for a residential mortgage exposure under Table 1 to this section, a covered banking organization shall calculate the loan-to-value ratio of the exposure as follows:

> (1) **Numerator.** The numerator of the loan-to-value ratio is the unpaid principal balance of the residential mortgage exposure at origination.
>
> (2) **Denominator.** The denominator of the loan-to-value ratio is the lesser of: (i) the appraised value of the property at origination, as determined by a licensed appraiser in accordance with applicable appraisal requirements; or (ii) the acquisition price of the property, where the residential mortgage exposure is for the purchase of the property.
>
> (3) **Private mortgage insurance.** For purposes of calculating the loan-to-value ratio under this paragraph (c), a covered banking organization shall not reduce the unpaid principal balance of the residential mortgage exposure to reflect any private mortgage insurance coverage on the exposure.

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

> (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; and (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's 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% x (1 - (25% x (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.

(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.

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

(i) is 14.2 percent, where the 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 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 Exposure 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) 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.