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HOUSING POLICY COUNCIL

July 19, 2019

Luisa De Gaetano-Polverosi, Associate Managing Director
Moody's Investor Service
7 World Trade Center
250 Greenwich Street
New York, NY 10007

Dear Ms. De Gaetano-Polverosi:

The Housing Policy Council ("HPC")[1] appreciates the opportunity to provide comments on the proposed enhancements to "Moody's Approach to Rating US Prime RMBS." Several HPC member companies are directly affected by the RMBS rating methodologies that are currently in use, and as such, have a strong interest in the continual refinement and improvement of these methodologies. We are supportive of the proposed revision to your methodology and the approach that you have taken to enhancing data and model assumptions looks prudent. We believe having a widely accepted independent MBS rating model to assess risks is an important step in helping to reinvigorate the private label RMBS market and in the ongoing support of the current Agency MBS market.

Also, in our view, the explicit recognition of the benefits of private mortgage insurance, as measured by the proposed set of reasonable criteria for assessing the reliability of this form of credit enhancement, represents a significant improvement. Our lender members who originate mortgages with low down payments as well as our private mortgage insurer members who offer this coverage support the proposed positive treatment of this common type of first-loss risk distribution and the additional liquidity that should result from this update to the methodology.[2] Therefore, our commentary focuses on this section of your proposal.

[1] The Housing Policy Council (HPC) is a trade association comprised of the leading national mortgage lenders, servicers, mortgage insurers, and title and data companies. HPC advocates for the mortgage and housing marketplace interests of its members in legislative, regulatory, and judicial forums. Our interest is in the safety and soundness of the housing finance system, the equitable and consistent regulatory treatment of all market participants, and the promotion of lending practices that create sustainable home ownership opportunities leading to long-term wealth-building and community-building for families.

[2] Because the charter requirements of Fannie Mae and Freddie Mac require credit enhancement for the portion of a loan above 80% LTV, lenders will typically procure mortgage insurance at time of origination to preserve their ability to sell these loans to the GSEs.

I. Rejection Rates

In 2013, Fannie Mae and Freddie Mac, at the direction of the Federal Housing Finance Agency (FHFA) issued Rescission Relief Principles, which in turn resulted in the 2014 introduction of new private mortgage insurance master policies. These master policies established a full set of terms and conditions that dictate when and how insurance claims are paid and when the insurance coverage may be rescinded. The master policies also introduced a formal process for counterparties to arrange for contractually binding rescission relief, an arrangement that restricts the ability of an MI company to rescind coverage. In 2018, the industry expanded the rescission relief principles, a change that will result in updated versions of private mortgage insurance master policies.

With the advent of rescission relief, and in particular the enhanced rescission relief that will soon be coming to market, the rejection rates should continue to decline, a trend that has been underway since advent of the previous policy. The assumptions used by Moody's may prove to exceed the actual experience and we would encourage Moody's to share the data used in the proposed methodology and to update those figures as additional data becomes available. While the adoption of a range of outcomes at the Aaa level allows flexibility, it would be helpful to have more detail about how that range was established, how it will be used in practice, and how the progression from the Baseline assumption up to the Aaa levels will occur.

With regards to the differential treatment of the GSE Backstop, we would encourage Moody's to consider broadening that category to include other types of credit enhancement backstops from a variety of counterparties, to create a level playing field. We would also request additional transparency regarding how the various, specific forms of rescission relief that are being offered would be treated within the methodology. Additional insight regarding this treatment would help to assure market participants that the relief they are granted will receive the appropriate credit. Finally, we would suggest that the rejection rate haircut be adjusted based on the deal specific Representations and Warranties (R&W). This would encourage stronger R&W language within a transaction by providing a benefit to those issuers who are willing to provide an extra layer of protection to investors.

II. Maximum Insurance Payout and Allocation

The HPC would like to recommend the publication of the table of idealized losses that you intend to use, along with examples so that we can engage in further discussion amongst our membership.

One item, in particular, that we would like to understand is how the maximum insurance payout (MIP) works in concrete terms, and how historical examples of mortgage insurers in runoff has been reflected. The companies that have gone into runoff are paying between 74.5% and 100% of their claims in full, with the remainder being satisfied as a deferred payment obligation (DPO), despite having the revenue declines associated with the cessation of new insurance written.

III. Conclusion

HPC believes that the proposed update to your methodology is a strong step forward and will help drive increased private capital and liquidity into the housing finance sector. With additional transparency, and minor refinements, we fully expect this important update to yield significant results for the housing finance sector.

Thank you for considering these comments, and for your leadership in taking this important step forward.

Yours truly,

Edward J. DeMarco
President
Housing Policy Council