MORTGAGE INSURANCE RELIABLY TRANSFERS MORTGAGE CREDIT RISK

MIs are Strong Counterparties, New Capital Standards Further Enhance Reliability

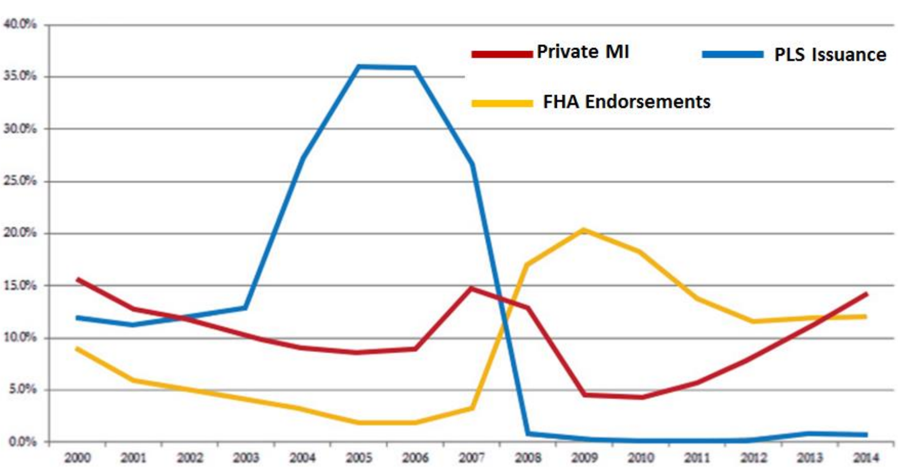
Much progress has been made, but more can be done to ensure the housing finance system is on a more sustainable footing. A key priority must be to position the private sector – not taxpayers - to bear more of the risks of another housing downturn. Policymakers are now considering proposals to de-risk the Government Sponsored Enterprises (GSEs) through greater reliance on private capital, such as expanded front end risk sharing using private Mortgage Insurance (MI).

MI Reliably Transfers Credit Risk

MI is a first layer of protection against mortgage credit losses and a time-tested method of risk sharing that has been used by the GSEs and others on low down payment loans for more than 50 years.

Mortgage Insurers (MIs) covered more than $50 billion in claims to the GSEs since conservatorship, resulting in substantial savings to taxpayers. Throughout the financial crisis, USMI member companies never stopped paying claims, never received any bailout money from the Federal government, and continued to write new insurance. In fact, since the crisis, MIs have paid all valid claims, with 96% paid in cash and the remainder due over time.

Snapshot of Originations from 2000-2014 Shows MI Consistently in the Market



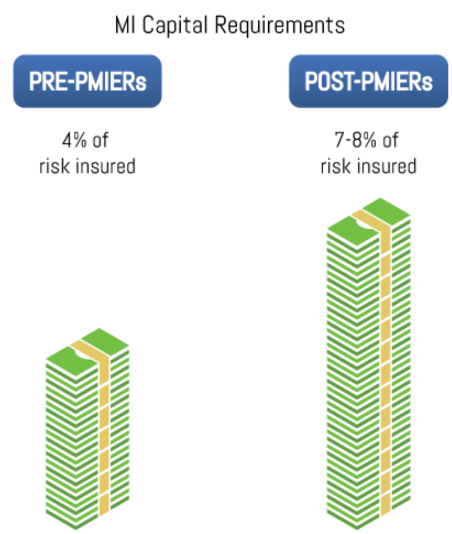
Percentage of total originations
Source: Inside Mortgage Finance

MIs have a long history of consistently offering mortgage insurance even during significant market downturns. This makes MI very different from capital markets structures, which disappeared during the crisis and have not returned in any meaningful volume since. Going forward, MIs are even more reliable thanks to new master policies that provide enhanced contractual certainty on how and when MIs pay claims.

MI Capital Is Strong

MIs have new higher capital standards under the Private Mortgage Insurer Eligibility Requirements, or PMIERs, issued by the GSEs. PMIERs nearly double the amount of capital each MI is required to hold. More capital further boosts the industry's ability to pay claims in good times and bad. All MIs have met or exceeded PMIERs requirements as of December 31, 2015. MIs have raised $9 billion in new capital since the financial crisis, and are well positioned to raise additional capital to meet demand.

Most MIs now must hold capital assets over 7%, compared to the 2% capital standard at FHA. While each GSE had capital buffers of roughly $1.8 billion, according to the terms of the senior preferred stock purchase agreements with Treasury, by 2018, the GSEs are expected to be at 0% capital under conservatorship.

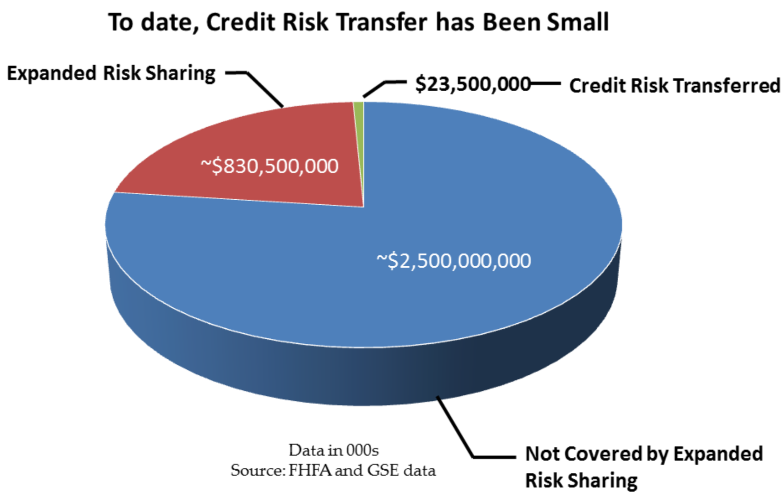


The MI industry is backed by private capital, which stands ready to take on first loss mortgage credit risk ahead of the taxpayer. In contrast, the GSEs are government-controlled entities that expose taxpayers to losses from mortgage credit risk.

Ample Capacity and Opportunity for Greater Risk Sharing with MI

Since 2012, the GSEs have purchased over $3 trillion in mortgage loans. About 25 percent of those loans, or roughly $850 billion, have been included in the GSEs' expanded credit risk sharing transactions (CRT). Only about 3 percent ($23 billion) of the unpaid principal balance of the loans included in CRT has been transferred—using virtually all back end transactions. That represents less than 1 percent of the GSEs' overall risk.

Risk Sharing Has Transferred Less than 1% of Risk



Today, MIs are more resilient and reliable counterparties, dedicated to providing access to housing finance credit in good and bad economic times. The time is right to move forward to expand front end risk sharing with MI, and USMI members are ready to do more.

About USMI

U.S. Mortgage Insurers (USMI) is dedicated to a housing finance system backed by private capital that enables access to housing finance for borrowers while protecting taxpayers. Mortgage insurance (MI) offers an effective way to make mortgage credit available to more people. USMI is ready to help build the future of homeownership.