

March 8, 2000

Ms. Anne E. Dewey  
General Counsel  
Office of the General Counsel  
Office of Federal Housing Enterprise Oversight  
1700 G. Street, N.W., 4<sup>th</sup> Floor  
Washington, DC 20552

Dear Ms. Dewey:

I am writing on behalf of United Guaranty Corporation (United Guaranty) and its subsidiaries to transmit the attached comment letter regarding the Office of Federal Housing Enterprise Oversight (OFHEO) Second Notice of Proposed Rulemaking (NPR2). I would like to emphasize that United Guaranty strongly supports the important role that the Government-Sponsored Enterprises (GSEs) play in creating home ownership opportunities for millions of Americans. Nothing that is stated here or in the attached comment letter should be interpreted to mean that we would wish in any way to alter or reduce that important role.

The following briefly summarizes the points that are of greatest concern to United Guaranty.

- (1) United Guaranty believes that the majority of the OFHEO proposed regulations, including the stress-test model, represent a significant step in the right direction. NPR2 is an improvement over the current process, and it should be supported and enhanced. To the best of our knowledge, however, the actual capital levels proposed by NPR2 cannot be fully determined and examined outside of OFHEO. This leaves us unable to determine whether or not NPR2 provides for adequate overall levels of capital for the GSEs. As a result, we strongly urge OFHEO to make the model more open and subject to public scrutiny. We also urge that the final result be required levels of capital that are at least as conservative and prudent as those of other financial institutions that have implicit or explicit backing of the U.S. Government.
- (2) United Guaranty worked with the Mortgage Insurance Companies of America (MICA) in developing its comment letter, and we support the MICA position. To avoid redundancy, the attached commentary does not reiterate many of the excellent MICA suggestions with regard to improving the stress-test model to better reflect the Benchmark Loss Estimates and to closing some NPR2 loopholes that may encourage GSE gaming of the rules. We strongly urge OFHEO to adopt the MICA suggestions or to develop equally effective rules to achieve the same objectives.

- (3) United Guaranty does differ with other mortgage guaranty companies in the way NPR2 reflects rating agency expertise in the differential treatment of AAA-rated versus AA-rated credit enhancement haircuts. Our comment letter points out that rating differentials are well-documented by the rating agencies and widely accepted by the capital markets. The current haircuts proposed by NPR2 are consistent with these rating differentials.
- (4) United Guaranty would like OFHEO to clarify the exclusive or preferred treatment of monoline mortgage guaranty insurance as a credit enhancement for high-LTV loans guaranteed or owned by the GSEs. We are not against GSE experimentation with alternatives, but until such alternatives have gained market acceptance and are proven to be secure, available, and price-stable for long periods of time, no capital credit should be allowed.

Our technical staff would be glad to meet with OFHEO at your convenience to discuss our views on any of these points.

Sincerely,

[signed: Charles M. Reid]

Charles M. Reid  
President & CEO