Scott Quesenberry
Vice President,
International Government Relations

8325 Six Forks Road
Raleigh, NC 27615 USA
+1-919-846-4374
Scott.Quesenberry@Genworth.com
genworth.com

VIA EMAIL and EXPRESS MAIL

April 30, 2013

Mr. Schmitz-Lippert
Chair
Joint Forum
Secretariat of the Joint Forum
Bank for International Settlements
CH-4002 Basel, Switzerland

Dear Mr. Schmitz-Lippert:

Genworth Financial, Inc. (Genworth) appreciates the opportunity to comment on the Joint Forum's "Mortgage insurance: market structure, underwriting cycles and policy implications, Consultative document" of February 2013 (Consultation). Genworth is a U.S. based Fortune™ 500 insurance holding company with assets in excess of USD 100 billion that is primarily divided into two divisions: a U.S. Life Insurance division that also offers long term care and fixed annuities; and a Global Mortgage Insurance (MI) division. Our Global MI division primarily writes business in Australia, Canada and the United States with additional operations in Asia, Europe, and Latin America.

As a leading provider of MI globally, we particularly appreciate the time and effort that the Joint Forum has taken in defining, examining and making recommendations regarding the product. Genworth believes that the Consultation framework and general recommendations provide an overall excellent base for the Joint Forum's forthcoming final recommendations. When the Joint Forum publishes its final recommendations, they will serve as a starting point for regulators that may be considering the advantages that MI would bring into their markets as well as for regulators with existing programs to ensure that their markets are well-regulated and well-capitalized.

Genworth commends the high level of transparency with which this work stream was conducted. This Consultation itself is an appreciated opportunity to comment before the Joint Forum issues final recommendations that, given the infrequency of such reviews, will set the international standard for a significant time.

The Consultation also indicates that the working party participated in a roundtable that included representatives from industry, as well as from academia and regulation. While we appreciate the fact that the Joint Forum is designed to allow regulators to work in conjunction, such deliberations benefit from a wider and more diverse perspectives. We strongly agree with the first bullet point from the "Summary of the February 2012 MI roundtable" that "[i]n jurisdictions where it is used, MI may constitute a positive part of a safe mortgage system. Where wrongly or poorly used, however, it may mask risk." While we do not believe that the product has been used in ways that mask risk in the markets we serve, Genworth does want to ensure the product continues to be a positive part of a safe mortgage

system globally. It is in that spirit that we offer the following observations on the Consultation.

Alignment of Interests

The MI product intrinsically aligns the insurer's and the home buyer's interests – the worst outcome for both is if the borrower is foreclosed upon (which gives rise to a claims obligation for the insurer). Mortgage insurance also serves to align the interest of the insurer with the lender (or investor). In instances where mortgage insurance covers less than 100 percent of loss, there is a shared interest in loss mitigation. Even when MI covers a loss in its entirety, the originator is bound by contractual provisions regarding the origination, underwriting, and servicing of the loan.

There are a number of way by which alignment can be strengthened. Mandatory usage as in Canada, Hong Kong, and South Korea is perhaps the strongest method because the lender must have access to a MI company. Another effective form of alignment of incentives is where the bank receives capital relief for diversifying its risk and there being additional system capital by having mortgage insurance in place.

Already noted in the Consultation is the importance of underwriting and continued strong standards for both originators and MIs, a position with which Genworth completely agrees. Many jurisdictions are considering a form of risk retention as a means to incent prudent underwriting and sustainable mortgage products. That same objective can be achieved in a more simple and transparent manner by adopting requirements for underwriting standards, imposing restrictions on overly risky products, and mandating mortgage insurance to mitigate the risk of loss for low downpayment lending.[1]

While recommendation 1 is framed broadly as alignment, unfortunately the only policy solution currently suggested in the Consultation for aligning originator and insurer risk is partial risk retention. Recommendation 1 should be expanded to recognize mortgage insurance as an effective tool to align the interests of borrowers, lenders and credit enhancers.

Risk retention certainly is not a panacea and must be carefully constructed not to exacerbate existing issues. Any requirement for risk retention for loans with private MI should also be applied to government MIs or the result will be to further increase the market advantage that most of government-owned MIs already have for a host of reasons, including a regulatory capital advantage due to their sovereign risk weights. This, in turn, would run counter to the ongoing efforts by policy leaders in several markets with government-owned MIs to reduce the public's exposure by increasing private MI's usage. Similarly, if risk retention is only applied to MI and not to other alternative Credit Risk Mitigants, then there will be an arbitrage towards those products, many of which are less regulated, and less well capitalized, than private MI. It could also increase the complexity and system cost for securitizations, especially if layered on top of separate risk retention requirements.

---

[1] For a detailed analysis of this point in the securitization context, please consult Genworth's submission to the U.S. financial services regulators regarding the Credit Risk Retention Proposed Rule at http://www.federalreserve.gov/SECRS/2011/November/20111116/R-1411/R-1411_072811_84779_449538049523_1.pdf.

Cross-sectorial Arbitrage

Genworth believes that recommendation 5 on cross-sectorial arbitrage would also benefit from expansion. This is, after all, one of the primary points of the matrix in the Consultation. Moving from the "MI u/wrig strong/Originator standards weak" box to the undesired "MI u/wrig weak/Originator standards weak" box can occur, per the Consultation, in one of two ways. The first is that market pressure leads to the adverse selection of the MI with the weaker underwriting standards. We agree that market pressure is a risk, and we appreciate the recommendations on maintaining underwriting quality. The second risk, according to the Consultation, is that regulatory arbitrage will occur and lenders will use alternative products and the MIs will be forced to lower underwriting standards in order to compete. As indicated in the Consultation, in the most recent financial crisis, originators utilizing alternatives to MI (e.g., "piggy-back loans, financial guarantees, securitisation or credit default swaps (CDS)", was a significant driver of the housing bubble, and, consequently, MI losses. Here the Joint Forum is perhaps uniquely situated to help regulators ensure that the different underwriting standards and generally lower capital requirements of these alternatives do not again create regulatory arbitrage.

Genworth remains concerned that not recognizing in the accounting standards or the bank capital requirements the long-term and occasionally catastrophic nature of High Loan-to-Value mortgage lending risk leads pro-cyclicality and under capitalization for alternatives to MI, including "self-insurance" by the banks. Thus, we appreciate and agree with the recommendation 4 that MIs should be required to build long-term capital buffers and reserves, as we believe they are in the markets where Genworth currently writes MI. However, if the alternatives to MI products are not subject to comparable standards, do not have to recognize the same risk and reserve accordingly, there will be additional incentive for cross-sectorial capital arbitrage.[2] Recommendation 5 should include these other forms of regulatory and capital arbitrage to alternative products within its scope.

With respect to the existing point in the Consultation on the developing accounting treatment, we do not disagree that this is another interrelationship that could create market pressure and possibly arbitrage. Genworth remains committed to working with those standard setters and the insurance industry to find the optimal solutions.

Genworth also remains committed to assisting the Joint Forum in any way it can in finalizing this work stream and would be pleased to offer any data or market updates that the working party desires. If you believe we can be of assistance, please contact Scott Quesenberry at +1.919.846.4374 or scott.quesenberry@Genworth.com.

Sincerely,

Scott Quesenberry

---

[2] For Genworth's recommendations on how the banking sector can better address the risk weights for High Loan to Value (HLTV) lending, please see our submission to the Basel Committee at http://www.bis.org/publ/bcbs165/genworthfinanci.pdf. Our first recommendation (starting on page 4) is that the IRB formula needs to recognise the relative risk of HLTV lending. We still believe that this is an important element that has not been picked up in the current Basel Committee work stream on Risk Weights because that work stream only reviewed the use of variables and the current factor on correlation is a constant.