



Private Mortgage Insurer Eligibility Requirements

December 21, 2015

Contents

| Chapter | Section | Page |
|---|--|-----------------------|
| Foreword | Introduction | 3 |
| | Effective Date | 3 |
| | Amendments and Waivers | 3 |
| | Defined Terms | 3 |
| Introduction | 100 <i>PMIERS</i> Must be Met at All Times | 4 |
| | 101 Compliance with Laws | 4 |
| | 102 Applicable <i>NAIC</i> Regulations | 5 |
| | 103 Ownership/Corporate Governance | 5 |
| Application | 200 Application Criteria | 6 |
| | 201 Application Submission | 6 |
| | 202 Application Fee/Other Costs | 6 |
| | 203 <i>Newly-Approved Insurer</i> Requirements | 7 |
| | Business Requirements | 300 Scope of Business |
| | 301 Organization | 8 |
| | 302 Policies, Procedures, Practices | 8 |
| | 303 Rebates, Commissions, Charges, and Compensating Balances | 8 |
| | 304 Separation of Responsibilities | 8 |
| | 305 <i>Master Policies</i> | 9 |
| | 306 Settlements and Changes to <i>Freddie Mac's</i> Rights | 9 |
| | 307 Diversification Policies | 9 |
| | 308 Claims Processing | 10 |
| | 309 Loss Mitigation | 10 |
| | 310 Lender and Servicer Guidelines | 11 |
| | 311 Policies of Insurance | 11 |
| | 312 Insurance Data Reconciliation | 11 |
| | 313 Business Continuity Planning | 11 |
| | 314 Document Retention | 12 |
| Policy Underwriting | 400 Overview | 13 |
| | 401 Evaluation of Loan Eligibility and Borrower Credit-worthiness | 13 |
| | 402 Property Valuation | 13 |
| | 403 <i>Delegated Underwriting</i> | 14 |
| | 404 Use of <i>Automated Underwriting Systems</i> | 14 |
| | 405 Independent Validation for Early Rescission Relief and Credible Evidence | 15 |
| Quality Control | 500 Quality Control Program | 16 |
| | 501 Pre-Closing Review | 17 |
| | 502 Post-Closing Review | 17 |
| | 503 Loan Selection | 17 |
| | 504 QC Reporting | 19 |
| | 505 Corrective Actions | 19 |
| | 506 Internal Audit | 20 |
| Lender Approval & Monitoring | 600 Lender Approval | 21 |
| | 601 Lender Monitoring | 21 |
| | 602 <i>Delegated Underwriting</i> Approval and Monitoring | 22 |
| Financial Requirements | 700 Meeting Financial Requirements | 23 |
| | 701 Sources and Diversification of Capital | 23 |
| | 702 Third-Party Opinion and Risk Analytics | 24 |
| | 703 <i>Available</i> and <i>Minimum Required Assets</i> | 24 |

Contents

| | | |
|-------------------------------------|---|----|
| | 704 <i>Ratings Agency Rating</i> | 26 |
| | 705 <i>Limitations Triggered by an Available Assets Shortfall</i> | 26 |
| | 706 <i>Investments in and Capital Support for Other Entities</i> | 27 |
| | 707 <i>Reinsurance and Risk Sharing Transactions</i> | 27 |
| | 708 <i>Lender Captive Reinsurance Contracts</i> | 30 |
| Notices/Reports/Monitoring | 800 <i>Statement of Purpose</i> | 31 |
| | 801 <i>Notices</i> | 31 |
| | 802 <i>Reporting</i> | 32 |
| | 803 <i>Supplemental Information</i> | 34 |
| | 804 <i>Periodic Audit Reviews</i> | 34 |
| Failure to Meet Requirements | 900 <i>General Policy</i> | 35 |
| | 901 <i>Remediation Options, Suspension and Termination</i> | 35 |
| | 902 <i>Voluntary Suspension or Termination</i> | 37 |
| | 903 <i>Consequences of Suspension</i> | 37 |
| | 904 <i>Consequences of Termination</i> | 37 |
| Exhibit A | <i>Risk-Based Required Asset Amount</i> | 38 |
| Exhibit B | <i>Operational Performance Scorecard</i> | 49 |
| Exhibit C | <i>Monthly Claims Activity Report</i> | 50 |
| Exhibit D | <i>Quarterly Portfolio and Financial Supplement</i> | 51 |
| Exhibit E | <i>Annual Certificate of Compliance</i> | 52 |
| Exhibit F | <i>Quarterly Portfolio Loan Level Dataset</i> | 53 |
| Glossary | | 54 |

Introduction

The *Private Mortgage Insurer Eligibility Requirements (PMIERs)* establish the requirements that a private mortgage insurance company must meet to be an *approved insurer* and provide *mortgage guaranty insurance* on loans acquired by *Freddie Mac*.

This document is intended solely for the use of *approved insurers* and applicants for *approved insurer* status. For the avoidance of doubt, the *PMIERs* are not intended to have the effect of regulation, which is expressly the domain of regulators, but, rather, they set forth requirements an *approved insurer* must meet and maintain in order to provide *mortgage guaranty insurance* on loans acquired by *Freddie Mac*. This document contains requirements as well as guidelines associated with applying for, obtaining, and maintaining *Freddie Mac approved insurer* status. *Approved insurers* must meet requirements that are preceded by the term “must.”

Effective Date

The *PMIERs* are effective immediately for new applicants, and on December 31, 2015 for existing *approved insurers* approved in the past under prior mortgage insurer eligibility requirements.

Amendments and Waivers

Freddie Mac may in its sole discretion modify, amend or waive any provision of the *PMIERs*, or impose additional requirements, applicable to one or more individual *approved insurers* regardless of their status, or to any entity seeking *approved insurer* status. Any amendments, waivers or modifications to the *PMIERs*, or additional requirements, will be communicated in writing by *Freddie Mac* to each *approved insurer* that is subject to the requirement with an effective date specified by *Freddie Mac*. Any such written waiver, amendment or modification must expressly refer to the provision(s) of the *PMIERs* being waived and be denoted as a waiver of such provision(s).

Defined Terms

All terms in italics are defined in the glossary located at the back of this document. Terms not defined in the glossary are used in the context of standard industry practice. *Freddie Mac* will determine in its sole discretion the final application and interpretation of any terms contained herein.

100 *PMIERS Must be Met at All Times*

All *approved insurers*, including *newly-approved insurers*, must meet or exceed the *PMIERS*, any conditions of approval, and any other applicable amendments or waivers made by *Freddie Mac* to these requirements and fulfill any obligations arising hereunder at all times.

An authorized *officer* of the *approved insurer's senior management* team must provide by April 15 of each year the Annual Certificate of Compliance (Exhibit E) certifying that the *approved insurer* has met all requirements of the *PMIERS* as of December 31 of the prior year. Except for other *PMIERS* sections that state a different period for notification, the *approved insurer* must notify *Freddie Mac* *immediately* upon discovery of its failure to meet any one or more of the *PMIERS*, conditions of approval or other applicable amendments or waivers made by *Freddie Mac* to these requirements. As part of its annual certification, the *approved insurer* must identify any failure to meet any additional requirements placed on the *approved insurer* by *Freddie Mac* and their status.

In accordance with Section 703, an authorized *officer* of the *approved insurer's senior management* team must certify quarterly the accuracy of its reporting of *available assets* and *minimum required assets* as described in the *PMIERS*.

101 *Compliance with Laws*

An *approved insurer* must maintain compliance with all *applicable law*.

The *approved insurer* must notify *Freddie Mac* in writing *immediately* upon its determination of *material noncompliance* with any *applicable law*. For purposes of clarification and without limiting the generality of the foregoing, such noncompliance includes the following:

- 1) a notice, letter, or order from a state or federal authority asserting jurisdiction over an *approved insurer* indicating that: (a) (i) the financial condition of the *approved insurer* is or may be “impaired”; (ii) the *approved insurer* is or may be “insolvent”; or (iii) the financial condition of the *approved insurer* is or is in danger of becoming “hazardous,” as any one or all of those terms are interpreted by the authority asserting jurisdiction, or (b) that the *approved insurer* does not meet or is in danger of not meeting any *applicable law* associated with the *approved insurer's* continued ability to write new insurance or to renew insurance previously written. Such notice, letter or order will be considered an event requiring *immediate* notice to *Freddie Mac* hereunder; even though the *approved insurer* may believe: (i) that it has a well-founded basis for disagreement with the assertion of noncompliance or (ii) that the state or federal authority has not made a final determination as to the noncompliance;
 - 2) any notice, letter, or order of any state or federal authority asserting jurisdiction over the *approved insurer* indicating that the *approved insurer* may not be, or is not, in compliance with an applicable state or federal law, regulation or order other than as described in 1) above, even though the *approved insurer* may believe: (a) that it has a well-founded basis for disagreement with the assertion of noncompliance or (b) that the state or federal authority has not made a final determination as to the noncompliance.
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**102
Applicable
NAIC
Regulations**

An *approved insurer* is required to maintain compliance with the specific provisions of the *Model Act* referenced in Sections 303, 307 and 802 of the *PMIERS*, except to the extent *applicable law* conflicts with the *Model Act*, in which case, the *approved insurer* must comply with *applicable law*.

**103
Ownership/
Corporate
Governance**

An *approved insurer* that is an *affiliate* of (i) a *mortgage enterprise* or (ii) an *affiliate* of a *mortgage enterprise* must not:

- 1) be the insurer of any mortgage originated by such *mortgage enterprise* or *affiliate* of a *mortgage enterprise* to which the *approved insurer* is *affiliated*; and
- 2) be the insurer of any mortgage originated by any *mortgage enterprise*, for which the servicing or contractual right to service was acquired or performed by such *mortgage enterprise* or *affiliate* of a *mortgage enterprise* to which the *approved insurer* is *affiliated*.

The requirements of 1) and 2) above do not apply if subsequent to the insurance of a mortgage by an *approved insurer* that has met the requirements of 1) and 2) above, a *mortgage enterprise* or an *affiliate of a mortgage enterprise* with whom an *approved insurer* is *affiliated* (a) purchases that insured mortgage or (b) acquires the contractual right to service the mortgage, but in any case does not (i) re-direct placement of *mortgage guaranty insurance* coverage at renewal to its *affiliated approved insurer* (ii) service or direct the servicing of the loans insured by its *affiliated approved insurer* in a manner materially different than loans that are not insured by its *affiliated approved insurer* or (iii) direct the originator of the loan to purchase *mortgage guaranty insurance* from the *approved insurer*. For example, 1) and 2) are not violated if the *affiliated mortgage enterprise* of an *approved insurer* acquires the contractual right to service a mortgage that is already insured by the *approved insurer*, but the servicing contract mandates that all mortgages, whether insured by an *affiliated approved insurer* or not, be serviced in accordance with the same servicing standards.

An *approved insurer* must also meet the following requirements:

- 1) The *approved insurer* must document and maintain evidence supporting its having met the requirements of 1) and 2) above and its procedures for certification thereof and share such evidence with *Freddie Mac* upon *Freddie Mac*'s request. The *approved insurer* must provide *Freddie Mac* immediate notice of any failure to meet the requirements of 1) or 2) without assessing or making a determination as to whether the failure to meet is *material*.
 - 2) Regardless of ownership or control of the *approved insurer*, no *officer*, director, employee or any other representative of a *mortgage enterprise* or *affiliate* thereof may sit on the Audit, Risk Management or Compensation committees of the Board of Directors of an *approved insurer*.
 - 3) The *master policies* must contain a provision requiring that if the servicing rights for a mortgage loan are sold, assigned or transferred in any manner, coverage under the *master policy* will continue uninterrupted as long as: (i) the new servicer is an entity to which the *approved insurer* has issued the *master policy*, or (ii) the new servicer has otherwise been approved in writing by the *approved insurer*; and (iii) the *approved insurer* has not revoked or limited its approval of the new servicer.
-

**200
Application
Criteria**

An applicant seeking *approved insurer* status must be a corporation in good standing, duly organized pursuant to and operating in compliance with *applicable law*.

Freddie Mac's approval is based on the ability of the applicant to satisfactorily meet the *PMIERS* and any other terms or conditions provided by *Freddie Mac* as a condition of approval, including the approval of the applicant's *master policy*.

**201
Application
Submission**

The applicant must submit the forms, information, documentation and certifications required for the application process of *Freddie Mac*. The application submission must include information on the applicant's ownership, management, corporate structure and legal organization, including parental and *affiliate* relationships. The application submission must include the *master policy* form(s) that the applicant intends to use to insure loans to be acquired by *Freddie Mac* for primary *mortgage guaranty insurance*, as well as any proposed bulk or pool insurance transactions, if applicable.

Approval of the applicant's *master policy* requires the submission by the applicant of any related documents including, without limitation, policies or procedures provided or intended to be provided to an *insured* or *insureds* regarding the administration or interpretation of *master policy* terms and conditions.

Freddie Mac will review the application submission as well as any qualitative factors related to the applicant, including an assessment of having met the *PMIERS*, *master policies*, and review of business practices and operational capabilities. *Freddie Mac* may require additional documents or actions as part of its application review process. Upon approval, *Freddie Mac* will notify the entity of the terms and conditions of approval in writing.

Only one *flagship* will be permitted in any family of insurance companies. Other insurers in the family may be approved by *Freddie Mac* for specific purposes; however, the *approved insurer* status, if any, of these subsidiaries or *affiliates* is dependent on the continued eligibility of the *flagship* as the primary writer of *mortgage guaranty insurance*. *Freddie Mac* may approve an insurer with certain conditions limiting its scope of business, and any change will require prior approval by *Freddie Mac*. A request for approval of any entity not previously an *approved insurer* must be made in accordance with the *PMIERS* including, without limitation, the application and fee requirements of Sections 200 through 203 hereof, and approval will be granted at the sole discretion of *Freddie Mac*.

**202
Application
Fee/Other Costs**

As reimbursement for internal costs incurred in *Freddie Mac's* review of the application, the applicant must pay to *Freddie Mac* a nonrefundable application fee of \$250,000 at the time of filing an application plus, as incurred, any out-of-pocket costs, fees and expenses, including any of the foregoing as are incurred and payable to third parties retained by *Freddie Mac* to assist in its evaluation of the applicant. Additionally, applicants that are granted approval by *Freddie Mac* may be required to pay costs, fees and expenses incurred by *Freddie Mac* to operationally accept and process mortgages insured by the *newly-approved insurer*.

203 Newly-Approved Insurer Requirements

A *newly-approved insurer* must meet the following financial requirements in addition to those described elsewhere in the *PMIERS*. Further, an *approved insurer* that is subject to a *material* change in its ownership, control or organization; or an *approved insurer* where a prior *suspension* has been lifted; may, in the discretion of *Freddie Mac*, be treated as a *newly-approved insurer* for some or all of these requirements for *newly-approved insurers*.

A *newly-approved insurer* must demonstrate initial capital funding in an amount not less than \$500 million. This amount may include contributions already made or provisions for start-up and formation costs such as those associated with the acquisition or development of an operating platform and supporting technology. Subsequently, the *approved insurer* must then maintain a level no lower than \$400 million of *available assets* as described in Section 703 of these requirements.

A *newly-approved insurer* must obtain a rating from a *rating agency* acceptable to *Freddie Mac* as soon as practicable but no later than three (3) years from the date of *Freddie Mac*'s approval.

For the first three (3) years after the date of *Freddie Mac*'s approval, a *newly-approved insurer* is prohibited from the following:

- 1) Paying dividends to its *affiliates* or its holding company; or
- 2) Making any investment, contribution or loan to any subsidiary, parent or *affiliate*.

For the first three (3) years after receipt of *Freddie Mac*'s approval, the *newly-approved insurer* must seek and obtain prior written approval from *Freddie Mac* for the following:

- 1) Any *reinsurance* agreements entered into by the *newly-approved insurer* including those referenced in Section 707 of the *PMIERS*;
- 2) Any risk novation or commutation sought by the *newly-approved insurer*;
- 3) Providing any kind of *mortgage guaranty insurance* beyond primary first lien; and
- 4) Provision of capital support, assumption of liability, or guarantee of another company's indebtedness by the *newly-approved insurer*.

For *newly-approved insurers*, Sections 200-203 of the *PMIERS* apply in addition to all other sections of the *PMIERS*. However, additional terms and conditions to address distinct risks or circumstances presented by the *newly-approved insurer* may also be imposed. Such terms and conditions may include, but not be limited to, requiring additional claims-paying resources of the *newly-approved insurer*, improving the certainty of coverage, or enhancing operational and management controls.

Business Requirements

300 Scope of Business

An *approved insurer* must either own its operating platform necessary to write *mortgage guaranty insurance* and employ its own employees; or have a long-term, irrevocable contract in place with a third-party to provide such services, even if the *approved insurer* were to go into *run-off* or be placed in receivership.

An *approved insurer* must limit its business activities to the writing of *mortgage guaranty insurance*.

An *approved insurer* must not provide services not directly required for providing *mortgage guaranty insurance* that create a *material*, direct or contingent liability for the *approved insurer*.

301 Organization

An *approved insurer* must be a corporation that continues to be in good standing, duly organized pursuant to, and operating in compliance with, *applicable law*.

302 Policies, Procedures, Practices

An *approved insurer* must maintain written policies and procedures, developed on the basis of safe and sound industry practices and standards, along with an effective system of internal controls. At a minimum, an *approved insurer* must have policies and procedures that address the following:

- 1) The underwriting of insurance risk including the evaluation of borrower creditworthiness, property valuation, and *delegated underwriting*;
 - 2) The timely and accurate payment of mortgage insurance claims;
 - 3) The prevention and investigation of fraud;
 - 4) The activities for monitoring and testing the quality of underwriting and claims administration (including loss mitigation); and
 - 5) The management of risk including risk dispersion, credit portfolio management, and customer management.
-

303 Rebates, Commissions, Charges, and Compensating Balances

When not specified otherwise in *applicable law*, an *approved insurer* must comply with the rebates, commissions, charges and compensating balance requirements found in the *Model Act*, Section 13 - Rebates, Commissions and Charges, Section 14 - Compensating Balances Prohibited, and Section 15(B) - Conflict of Interest. An *approved insurer* must notify *Freddie Mac* in writing *immediately* upon its determination of *material* noncompliance with these requirements.

304 Separation of Responsibilities

An employee of an *approved insurer* whose responsibilities include sales for the *approved insurer* must not underwrite or approve insurance on mortgages. Excluded from this restriction are *officers* accountable for: a) sales; and b) underwriting, credit risk management, counterparty risk management or other risk management functions.

Business Requirements

305

Master Policies

Master policies must be submitted to *Freddie Mac* for approval prior to use. Any proposed changes to an existing *master policy* covering any loan *Freddie Mac* acquired, or that will cover a loan intended for sale to *Freddie Mac*, must be approved in advance and in writing by *Freddie Mac*. This includes any *master policy* change or clarification, whether by endorsement, customer bulletin, letter agreement, or any other form of agreement or commitment, with or without consideration and without regard to whether such change or clarification, whether by endorsement, customer bulletin, letter agreement, or any other form of agreement or commitment, alters or is likely to alter the terms of, or the rights of the parties under, the *master policy*.

Freddie Mac must be able to rely on the *approved insurer* to pay all valid claims when due in accordance with the terms of the *master policy* and the *PMIERS*. *Master policy* interpretation and claims administration should be reasonable, clear, fair and consistent. The *approved insurer* must actively pursue perfection of claims and expeditiously conduct claims investigations to ensure prompt settlement of claims.

306

Settlements and Changes to Freddie Mac's Rights

An *approved insurer* must not, without *Freddie Mac*'s prior written approval, enter into any agreements pertaining to *Freddie Mac*'s loans (including any loss sharing, indemnification, settlement or compromise agreement) that: (i) retroactively or prospectively waive, suspend, or otherwise alter the *approved insurer*'s rights to investigate loans, rescind or deny coverage, or settle claims on one or more specified loans; (ii) expand or alter the *approved insurer*'s right to rescind, as in cases where rescission is triggered by an event unrelated to loan eligibility, compliance with underwriting requirements, or breach of policy representations and warranties (e.g., rescission triggered by failure of a *mortgage enterprise* to fund a *reinsurance* entity); or (iii) otherwise affect one or more loans acquired by *Freddie Mac*. Notwithstanding the foregoing, an *approved insurer* does not need to obtain *Freddie Mac*'s prior written approval for the settlement of a claim on a single loan in the ordinary course of business, provided that in connection with such settlement, the *approved insurer* does not receive any financial consideration independent of any claim adjustment that is otherwise supported by the terms of the *approved insurer*'s *master policy*.

307

Diversification Policies

An *approved insurer* must have a documented risk diversification policy and employ risk management tools and techniques to avoid concentrated risk exposures in the *risk-in-force* the *approved insurer* insures. Segments of business for which concentrations should be monitored and managed include, but are not limited to, loan products and programs, geography, customers, and source of business (e.g., retail, wholesale, correspondent). The *approved insurer* must establish geographic concentration limits that, at a minimum, are in compliance with the *Model Act*, Section 5 - Geographic Concentration.

An *approved insurer* must monitor and report, at least quarterly, its risk concentrations to its *senior management* team. If the *approved insurer* determines that any concentration limits established by its risk diversification policy have been breached, the *approved insurer* must determine the cause of the breach and develop an action plan. To the extent the breach develops due to natural market dynamics (such as origination or prepayment phenomena), the *approved insurer* must review, among other things, its geographic mix, product type, marketing, customer base and pricing and, as part of its action plan, implement steps to bring the breaches within its policy parameters. *Senior management*

Business Requirements

307
Diversification
Policies
(continued)

must review and approve the action plan prior to implementation. The action plan must be available and provided to *Freddie Mac* upon request.

308
Claims
Processing

An *approved insurer* must maintain a standard claims processing and servicing guide posted on its website. Updates must be communicated to *insureds* with specific timelines for implementation. The *approved insurer* must provide to *Freddie Mac* specific information related to its claim review and settlement processes including the following:

- 1) Documentation required to be provided in the claims submission process;
- 2) Claims status indicators and timelines, including communication that the *approved insurer* will provide to the servicer during the claim review;
- 3) Corporate policies related to:
 - a. Claim payments,
 - b. Claim rescissions,
 - c. Claim denials,
 - d. Claim curtailments,
 - e. Appeals of rescissions, claim denials, or cancellations of coverage;
- 4) Upon request, any written or electronic communication between the *approved insurer* and any *insured* related to or required under any of the foregoing documentation, reviews, processes or policies as they may pertain to *Freddie Mac's* loans.

An *approved insurer* must either: a) pay or deny a claim, or b) rescind coverage, within 180 calendar days of the *claim perfection date*, and, in any event, the *approved insurer* also must rescind or deny a claim that is not perfected by 120 calendar days from the claim filing date, except to the extent a *master policy* expressly requires the *approved insurer* to take any of the foregoing actions within lesser periods of time, in which event the timeline prescribed in the *master policy* must be followed.

309
Loss Mitigation

In order to mitigate potential loss outcomes and provide consistency and process efficiency, *Freddie Mac* wishes to maintain a full delegation from the *approved insurer* for the loss mitigation alternatives of retention (e.g., loan modification or forbearance) and property disposition (e.g., short sale or deed-in-lieu of foreclosure). Among other provisions of such delegation, *Freddie Mac* will make decisions regarding property disposition without regard to whether a loan has *mortgage guaranty insurance* coverage. An *approved insurer* with delegations in place must make it clear in its servicing guidelines that servicers should follow the loss mitigation protocols and requirements of *Freddie Mac*.

Should an *approved insurer* not choose to maintain such a full delegation, *Freddie Mac* may assess a fee with respect to that *approved insurer*. Such fee would reflect the anticipated higher loss management costs as determined by *Freddie Mac* at such time for the elements (full or partial) of the delegation to *Freddie Mac* not maintained by the *approved insurer*.

Business Requirements

To the extent an *approved insurer* does not provide *Freddie Mac* with full delegation, the *approved insurer* must conduct its loss mitigation and claims management operations according to the terms of the *master policy* and supporting documents.

310 Lender and Servicer Guidelines

Approved insurers must maintain transparent and accessible lender and servicer guidelines on the *approved insurer's* website which reflect its standard business practices and include, but are not limited to, the following business functions:

- 1) Underwriting and loan eligibility, and
- 2) Default management.

Guidelines that should be accessible on the *approved insurer's* website include, but are not limited to, the following:

- 1) Loss mitigation standards for default management that clearly define servicer obligations. The guidelines should provide examples of actions, or inactions, which might lead to claim curtailments or denials.
- 2) Loss mitigation standards for borrower contact, collection practices, and required documentation.
- 3) Requirements and protocols for loss mitigation workouts delegated to servicers, that cover the following alternatives to foreclosure:
 - a. Loan modifications,
 - b. Pre-sales,
 - c. Third-party sales,
 - d. Deeds in lieu of foreclosure.
- 4) Claims administration.

311 Policies of Insurance

An *approved insurer* should maintain business insurance (such as Fidelity Bond, Errors & Omissions, Directors & Officers, etc.) or provide for a reserve for self-insurance. However, an *approved insurer* must maintain Fidelity Bond and Error & Omissions insurance policies if the amount of its *available assets* falls below the minimum requirement of \$400 million at the end of any calendar quarter. The coverage amount for each policy must be no lower than \$5 million dollars with a maximum 5% deductible.

312 Insurance Data Reconciliation

An *approved insurer* must periodically complete a data reconciliation process with *Freddie Mac*, in accordance with *Freddie Mac's* requirements. Such process will include providing to *Freddie Mac* any data, reports and other information exchanged between an *approved insurer* and an *insured* relating to any loan(s) acquired by *Freddie Mac*, which also must be provided to *Freddie Mac* upon its request.

313 Business Continuity Planning

An *approved insurer* must maintain business continuity plans and test such plans periodically to ensure that the *approved insurer's* business operations are sustainable in the event of disaster or other event requiring the activation of a business continuity plan.

Business Requirements

314 Document Retention

An *approved insurer*, and any *exclusive affiliated reinsurer*, must retain documents and records that are necessary to demonstrate that it has met the *PMIERS* on an ongoing basis. Documents must be retained in accordance with the requirements of *applicable law* for document retention. In the absence of any such requirement, such documents must be retained for a period of at least three (3) years.

An *approved insurer*, and any *exclusive affiliated reinsurer*, is required to maintain records of claim denials, rescissions, policy cancellations and partial settlements in accordance with the requirement stated above. These records must also indicate the percentage and dollar amount of partial settlements, the amount of any claim denial, rescission or policy cancellation, as well as the reason for these actions.

The files related to each settled claim must contain information and documentation necessary to show that losses were computed pursuant to requirements of the *master policy*.

The *mortgage payment record* must be maintained by either the *approved insurer* or the *insured*. If the *insured* maintains the record, the *approved insurer* must establish servicing guidelines requiring the *insured* to employ adequate controls documenting the maintenance and quality of *mortgage payment records*. Records or documents may be created or retained in electronic form without storage of paper hard-copies, provided that they are retained and remain recoverable for the time required hereunder.

Policy Underwriting

400 Overview

As a credit enhancement provider to *Freddie Mac*, an *approved insurer* or its *delegated underwriter* must underwrite and understand the credit risk it insures (both borrower and property), and must have appropriate controls and procedures to ensure underwriting decisions, whether made by its staff or by its *delegated underwriter*, are sound and in accordance with its guidelines. An *approved insurer's* determination of the acceptability of a loan's credit risk prior to insuring a loan, and in the case of *delegated underwriting* its timely sampling and review of loans insured in its *delegated underwriting* channel to ensure lenders are properly determining the acceptability of a loan's credit risk, are foundational requirements of *Freddie Mac*. An *approved insurer's* compliance with its underwriting practices and procedures will be audited by *Freddie Mac*.

An *approved insurer's* underwriting guidelines should be applied consistently to each borrower, regardless of race, color, religion, national origin, age, sex, marital status, familial status, or disability. Without limiting the generality of any *approved insurer* obligation under Section 101 of the *PMIERS*, the *approved insurer* must comply with all *applicable law* related to its underwriting practices.

401 Evaluation of Loan Eligibility and Borrower Credit- worthiness

An *approved insurer* or its *delegated underwriter* must, prior to insuring a loan, determine the creditworthiness of the borrower and the eligibility of the loan under its underwriting guidelines.

To establish a reasonable expectation that the borrower will make timely repayment of the loan being insured, the *approved insurer* or its *delegated underwriter* must determine that the borrower has an acceptable credit history, and has sufficient capacity and assets. The determination of creditworthiness should be made with specific consideration of the characteristics of the mortgage and repayment terms, and be based on a thorough evaluation of all pertinent credit information. An *approved insurer* may not insure any mortgage for which such determination has not been completed.

The *approved insurer* must maintain a list of underwriting documents that it may rely on to underwrite each loan. This list should be consistent with those listed in the *master policy* (or other document that references the *master policy*) under which the loan is insured. The list, along with a historical record of changes made to the list over time, must be maintained so that it is available to all parties that have an interest in the insurance or the loan.

402 Property Valuation

The *approved insurer* must establish a methodology for reviewing property valuations that will allow the *approved insurer* or its *delegated underwriter* to determine that the subject property is of sufficient market value to support the decision to insure. Such methodology should specifically address properties located in a soft or declining market.

An *approved insurer's* risk management controls must include a procedure for re-verifying property values in the event that an appraisal (or other forms of property valuations) is suspected of being fraudulent or unsubstantiated.

403
Delegated
Underwriting

Approved insurers may utilize *delegated underwriting* provided that the *approved insurer* has established a system of controls and safeguards including, but not limited to, a lender approval and monitoring process, and a quality control (QC) program to ensure compliance with the *approved insurer's* underwriting standards.

Delegated underwriting authority should be given only to lenders that have an established track record of originating high-quality loans or have demonstrated to the satisfaction of the *approved insurer*, after due diligence, that a lender has the competence to originate high-quality loans. The *approved insurer's* QC program must be designed so that loans underwritten by *delegated underwriting* lenders receive a high degree of scrutiny and have a process to address lenders that do not comply with the *approved insurer's* quality standards.

In its determination of whether to issue a certificate of insurance, a *delegated underwriter* may use an *automated underwriting system (AUS)* recommendation where an *approved insurer* has previously concluded that the particular *AUS's* recommendations are generally aligned with the *approved insurer's* independent credit risk guidelines as evidenced by that *approved insurer's* risk review process, and demonstrably supported by the analysis referenced in Section 404 below. This is the case even though the *delegated underwriter* may be able to rely on an *AUS* recommendation in its role as the lender making a determination on whether to extend credit.

An *approved insurer's* management of its *delegated underwriting* program and its significance in the *approved insurer's* business plan will be considered by *Freddie Mac* when assessing the counterparty risk of the *approved insurer*. (Refer to Quality Control, Sections 500-504 and Lender Approval and Monitoring, Sections 600-602 for requirements and guidelines.). The *approved insurer's* controls and safeguards for managing *delegated underwriting* will be audited by *Freddie Mac*.

404
Use of
Automated
Underwriting
Systems

If an *approved insurer* wants to use a *AUS* recommendation (a) for its own purposes, or (b) as part of a *delegated underwriter's* underwriting of loans insured by the *approved insurer*, then, in either instance, the *approved insurer* must utilize a risk review process which includes an analysis (subject to audit by *Freddie Mac*) which ensures that the recommendations of that *AUS* are aligned with the *approved insurer's* independent credit risk guidelines, including those germane to any subsequent *AUS* model version updates.

This analysis would provide the basis for the *approved insurer* or its *delegated underwriter* to use the *AUS* recommendation, rather than requiring the performance of full “manual” underwriting in either such instance.

Examples of the types of analysis that could be conducted include but are not limited to:

- A statistical validation of recommendations provided by the *AUS* in question to establish their consistency with the *approved insurer's* credit risk tolerances, internal risk modeling, and any overlay requirements, and
- An analysis of a population of randomly selected loans for which the *AUS* has generated recommendations that compares the consistency of the *AUS* recommendations to the credit determinations made by lenders through manually

Policy Underwriting

404

**Use of
Automated
Underwriting
Systems
(continued)**

underwriting the loans.

In no event may an *approved insurer* permit the use, whether by its own underwriter or by a *delegated underwriter*, of an *AUS* recommendation in its determination as to whether to issue a certificate of insurance unless and until the *approved insurer* has first subjected that *AUS* to the *approved insurer's* risk review process, including the analysis illustrated above. If, at any time thereafter, the *approved insurer's* analysis suggests that *material* discrepancies exist between its own risk management policies or credit risk guidelines and the *AUS* recommendations, the *approved insurer* must take appropriate steps to address these discrepancies, which would include adding eligibility overlays or discontinuing the use of that *AUS's* recommendations.

405

**Independent
Validation for
Early Rescission
Relief and
Credible
Evidence**

An *approved insurer* that opts to grant rescission relief earlier than 36 timely payments in accordance with its *master policy* or endorsements to its *master policy* for borrower/loan eligibility and underwriting defects or collateral eligibility and valuation defects must base its decision on independent validation by the *approved insurer*. In completing its independent validation, the *approved insurer* must have a process for reviewing or validating each loan. Any review must be completed by a qualified underwriter or automated process which, other than validation tools vetted by the *approved insurer*, has had no association of any kind with (i) the originator, (ii) the underwriting or origination of the loan, or (iii) any individual involved at any point in the underwriting or origination of the loan.

Because an *approved insurer* has significant discretion under its *master policy* to determine whether it has identified credible evidence of a material loan defect, *Freddie Mac* expects that an *approved insurer* will: 1) develop standards for what constitutes "credible evidence" and what loan defects are "material" that are consistent with its *master policy*, and 2) apply these standards equally to all of its policyholders.

500 Quality Control Program

An *approved insurer* must maintain a QC program to assess the effectiveness of its underwriters and that of its *delegated underwriting* programs. The goal of an effective review process is to monitor adherence to the *approved insurer's* underwriting guidelines, ensure the accuracy of the mortgage data being relied upon, and prevent insuring fraudulent mortgages or mortgages with other deficiencies including faulty underwriting or insufficient documentation.

While there is no one specific QC program that can meet the needs of all *approved insurers*, certain common characteristics can be found in all effective QC programs. Examples of industry best practices are captured in *Freddie Mac's* Selling Guide and quality control best practices document, which can be found on *Freddie Mac's* website. However, at a minimum, an *approved insurer's* QC program must incorporate the following elements:

- 1) Operate independently from the sales and underwriting functions.
- 2) Be effective in determining that the insured mortgages were properly underwritten and consistent with the *approved insurer's* underwriting guidelines.
- 3) Include standard reporting (as referenced in Section 504) that identifies opportunities for improvement, training, or other corrective actions that are communicated on a regular basis to the *approved insurer's senior management* and its lender customers.
- 4) Employ a loan selection methodology and frequency that meets the requirements of Section 503 hereof.
- 5) Monitor overall quality by source of business (e.g., retail, wholesale, broker, other).
- 6) Review declined applications for insurance in its non-*delegated underwriting* channel to determine whether there is adequate support for those decisions.
- 7) Maintain written operating procedures that incorporate the following:
 - a. A clearly defined scope and purpose of the review, noting differences between underwriting and claim reviews.
 - b. The establishment and maintenance of a red-flag checklist for potential fraud.
 - c. A well-defined process for establishing and managing corrective actions such as notification to the *approved insurer's* management, additional training for underwriting staff, or the removal of a lender's *delegated underwriting* authority.
 - d. The utilization of third-party resources that can be applicable to the QC process, such as fraud detection tools.
 - e. A threshold QC defect rate that triggers the need for corrective actions.
 - f. A clear methodology to establish corrective actions should a QC defect rate rise above a threshold level requiring corrective action.
 - g. Prompt identification of loan defects and subsequent actions taken to address and remediate patterns of loan production issues before loans qualify for rescission relief under the *master policy*.
 - h. Governance criteria and process for making and approving revisions to the *approved insurer's* QC program.

**500
Quality Control
Program
(continued)**

On an annual basis, the *approved insurer* must submit to *Freddie Mac* a copy of its QC program with any changes noted from the prior year's version.

**501
Pre-Closing
Review**

The *approved insurer* should consider including as part of its QC program procedures for a pre-closing review of mortgages for which a commitment to insure has been issued prior to closing of the mortgage. This review may utilize automated tools or other methods including information from third-party tools that screen for fraud and misrepresentation.

**502
Post-Closing
Review**

The QC program must include procedures for the post-closing review of selected mortgage loan files for which the *approved insurer* has issued *mortgage guaranty insurance* coverage to ensure that the loans closed with the terms and risk characteristics as originally accepted by the *approved insurer* or its *delegated underwriting* lender. In performing the loan file review, the *approved insurer* must evaluate the quality of the documentation and whether the underwriting decision conforms to, and is consistent with, the *approved insurer's* underwriting guidelines. The QC post-closing loan file review must, at a minimum, include the following:

- 1) A review of insured loans that were underwritten through both *delegated underwriting* and non-*delegated underwriting* channels, as well as non-*delegated underwriting* channel loans that were denied coverage; and
- 2) The evaluation and, as appropriate, re-verification of the following information for the selected loans:
 - a. Income,
 - b. Employment,
 - c. Assets to meet reserve requirements,
 - d. Appraisal report or property valuation data, and
 - e. Credit reports.

The post-closing QC loan file review results, including any findings, must be documented and reviewed with the *approved insurer's senior management* and, if appropriate, the originating lender.

**503
Loan Selection**

An *approved insurer's* QC program must employ both a random selection and a discretionary selection to effectively monitor the overall quality of its newly-written insurance.

For random selections (i.e., non-discretionary samples), sampling techniques must ensure that every type of insurance, origination source, program, property type, etc. is eligible to be selected for review. The samples selected must include insured loans that are representative of an *approved insurer's* full scope of business written during the period being audited.

An *approved insurer* must use a random sampling methodology for determining the sample size that produces at least a 95% confidence interval with no more than a 2%

503
Loan Selection
(continued)

margin of error when measured on a quarterly basis. The *approved insurer* must document how its sample size and loan file selections were determined for each selection set of loans and must provide to *Freddie Mac*, upon its request, such documentation supporting the validity of the *approved insurer's* sampling methodology. The *approved insurer's* post-close QC review of loans sampled through its random selection process must be completed no later than 120 calendar days following the latest insurance in force date of the selected loans.

For its discretionary reviews, an *approved insurer* must review 100% of the loans it insures that become early payment defaults. In addition, the *approved insurer* should consider including in its selection for discretionary reviews loans that fall into the following categories:

- 1) Loans with layered risk characteristics;
- 2) Loans associated with a new loan type or new insurance product;
- 3) Loans subject to concerns about delinquency rates or patterns of defects identified in previous QC reviews;
- 4) Loans underwritten by a specific *delegated underwriter*;
- 5) Loans underwritten by staff members with limited underwriting experience;
- 6) Loans underwritten by lender(s) with a pattern of originating loans with high-risk characteristics; and
- 7) Loans underwritten or originated by lenders with a history of fraud or early prepayment.

A critical component of an *approved insurer's* QC program is the establishment and tracking of metrics and tolerances to quantify and compare the performance of its internal underwriting processes and those of its customers. To that end, *approved insurers* must calculate QC defect rates for all reviewed loans, loans underwritten on a non-*delegated underwriting* basis, and loans underwritten through an *approved insurer's* *delegated underwriting* program. An *approved insurer* must establish a maximum QC defect rate threshold for its random selection reviews. There is no corresponding threshold rate for defects identified through discretionary reviews.

The QC defect rate threshold should be set by the *approved insurer*, subject to *Freddie Mac's* review, taking into consideration the nature and circumstances of its overall business, its risk tolerances, the individual lenders with which it conducts business, and industry practices. The *approved insurer* should periodically reassess the threshold level with the goal of minimizing the threshold level over time.

If the *approved insurer's* QC defect rate threshold is exceeded, prompt action must be taken to ascertain any underlying cause(s) responsible for the breach (see Section 505 – Corrective Actions). Based on its assessment, the *approved insurer* must develop an action plan (or document why one was not necessary) to correct the underlying causes driving the breach. In addition, the *approved insurer* should establish triggers for how long its QC defect rate may remain elevated before pursuing corrective actions.

504 QC Reporting

QC findings are a basis for ongoing feedback to lenders and the *approved insurer's* underwriting staff. They also constitute a key component of the *approved insurer's* efforts to detect fraud and ineligible loans. The QC program should include regular reporting of findings to the *approved insurer's senior management*, including the management of the following business areas: risk management, underwriting, sales and operations. The QC reporting should be consistent in frequency with the QC review process. However, there must be *immediate* reporting to *senior management* in the event that a pattern of fraud or other similar activity, including but not limited to, misrepresentation, misstatements, omissions, or data inaccuracies is suspected as specified in the *master policy*.

The QC reporting must include, but is not limited to, the following:

- 1) Findings, QC defect rates and other issues resulting from the *approved insurer's* QC review process.
- 2) Identification of the completed random and discretionary selections and the QC review results associated with each sample type.
- 3) Timeliness of reviews, backlogs, or other process issues.
- 4) Results of investigations of suspected or confirmed cases of intentional, material misstatement, misrepresentation, omission or data inaccuracy.
- 5) QC defect rate and findings reported separately for all significant lender customers and in aggregate for *delegated underwriting* and *non-delegated underwriting* programs.
- 6) Trending of QC results to monitor the development of adverse trends.
- 7) Performance of loans with previously identified QC defects where coverage was not rescinded or cancelled.
- 8) Status tracking of all outstanding corrective action plans established to address either internal or customer findings.

The *approved insurer's senior management* and relevant business areas must review the results of the report findings within 30 calendar days from the completion of the QC reviews, and must promptly implement any related action plans.

The *approved insurer* must provide to *Freddie Mac* reporting on its QC defect results on a quarterly basis. The QC defect rate, along with other performance metrics, will be monitored by *Freddie Mac* through the *Operational Performance Scorecard*.

505 Corrective Actions

Once QC defects are identified that require corrective actions, the *approved insurer* must have a process in place to assess the QC defect to determine its root cause. Appropriate corrective actions must be pursued in a timely manner to remedy the identified QC defect. Corrective action plans must be developed and documented with specific timelines for completion and verification. For issues specific to a particular lender, the *approved insurer* must document its communication with the lender concerning that issue(s).

Examples of potential QC corrective actions include but are not limited to:

- 1) Use of discretionary sampling to provide greater insight as to the extent of the

Quality Control

505
Corrective
Actions
(continued)

-
- issue such as expanding the selection of loans with similar characteristics;
- 2) Increased sampling rates or frequency of QC reviews;
 - 3) Enhanced staff or customer training;
 - 4) Implementation of process controls or process redesign;
 - 5) Strengthening of policies or procedures;
 - 6) System enhancements or other technology solutions;
 - 7) Engaging a third-party to conduct an independent review of the *approved insurer's* QC process including its sample selection processes;
 - 8) Restrictions on or the outright suspension/termination of a lender's *delegated underwriting* authority; and
 - 9) Restrictions on products or programs offered to a particular lender.
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506
Internal Audit

The *approved insurer* must have an independent internal review process to check general compliance of the QC Program with the *approved insurer's* own guidelines and practices. The *approved insurer* must grant *Freddie Mac* access to all underwriting and associated QC files that are part of or applicable to any loan acquired by *Freddie Mac*.

Lender Approval & Monitoring

600 Lender Approval

In addition to the requirements stated under Section 602, *Delegated Underwriting Approval and Monitoring*, an *approved insurer* must have and apply written standards and procedures for evaluating and approving the new lenders from whom they receive requests to insure mortgage loans. These procedures must be applied to all new lender applicants regardless of the *mortgage guaranty insurance* coverage type, delivery method or transaction type being considered, and should include steps sufficient to allow the *approved insurer* to evaluate the new applicant's origination and servicing practices if applicable. The level of inquiry and information reviewed may vary depending on the scope and level of business to be conducted with the lender. The *approved insurer's* review must include consideration of the following areas:

- 1) The lender's underwriting and loan manufacturing process, including the experience of its mortgage underwriters, its reliance on third-party originators, and its use of *automated underwriting systems*.
- 2) The lender's approval and monitoring processes for third-party appraisers and broker/correspondents with which it does business.
- 3) The lender's fraud prevention controls.

601 Lender Monitoring

An *approved insurer* must monitor the quality and performance of its lenders and their originations. Management should receive regular monitoring reports about each significant lender relationship. Effective reporting should aid the *approved insurer's* management in making informed decisions when remediation is required to address any lender deficiencies, or when it may be appropriate to reconsider a lender's approval status. Monitoring reports should include the tracking of all identified lender performance issues or deficiencies and the status of their resolution.

Following are some indicators of a lender's overall performance to be evaluated by the *approved insurer*:

- 1) Volume of business and market share trends;
- 2) Delinquency and loss performance, including early payment defaults;
- 3) Underwriting declination rates;
- 4) Servicing problems or trends;
- 5) Performance of loans with approved credit policy variances;
- 6) QC results and defect rates;
- 7) Changes in key personnel, such as *senior management*, or those underwriting or servicing insured mortgages;
- 8) Lender profitability analysis and peer comparison; and
- 9) Effectiveness of loss mitigation efforts, unless delegated to *Freddie Mac*.

The type and extent of monitoring expected by *Freddie Mac* to be performed by the *approved insurer* directly relate to the amount of risk it is taking from a particular lender. This will vary with volume, type of loans insured, geographic location and servicing characteristics.

Lender Approval & Monitoring

602 **Delegated Underwriting Approval and Monitoring**

Freddie Mac's risk review and assessment of the *approved insurer's* lender approval and monitoring process will also consider the *approved insurer's* management of its *delegated underwriting* program and how that *delegated underwriting* program is incorporated into the *approved insurer's* overall business plan and corporate strategy.

Delegated underwriting authority should be given only to lenders that have an established track record of originating high-quality loans or have demonstrated to the satisfaction of the *approved insurer*, after due diligence, that a lender has the competence to originate high-quality loans. Prior to approving a lender to perform *delegated underwriting* for the *approved insurer*, the *approved insurer* must perform an adequate level of due diligence, incorporating an assessment of the areas mentioned in Section 403, *Delegated Underwriting*, sufficient to ascertain whether the lender is capable of meeting the *approved insurer's* quality standards.

The *approved insurer's* QC program must be designed so that loans underwritten by *delegated underwriting* lenders receive a high degree of scrutiny and have a process to address lenders that do not comply with the *approved insurer's* quality standards. In determining compliance with its underwriting standards, an *approved insurer* may not rely solely on a lender's representations and warranties.

The overall performance of an *approved insurer's* *delegated underwriting* loans must be tracked separately, by lender, from other insured loans.

Financial Requirements

700 Meeting Financial Requirements

An *approved insurer* must meet all financial requirements set forth in the *PMIERs* as a condition of initial and continued status as an *approved insurer*, unless otherwise permitted by *Freddie Mac* in writing. *Freddie Mac's* initial and continued approval of a private mortgage insurer will depend on multiple factors in addition to the financial requirements. An opinion (of the *approved insurer* or otherwise) that a basis for remedy of the noncompliance exists or that the period of noncompliance is expected to be brief does not change the determination that the noncompliance is *material*.

701 Sources and Diversification of Capital

The *approved insurer* should have financial flexibility and broad access to multiple sources of capital such that it has the ability to: (1) fulfill all *mortgage guaranty insurance* commitments, (2) obtain additional capital if required, and (3) remain adequately capitalized at all times. *Freddie Mac's* evaluation of the *approved insurer's* financial flexibility will include, but is not limited to, assessment (with stress-testing and solvency analysis) of existing sources of capital (such as statutory assets, *contingency reserves*, premium flows and investment income), credit losses and operating expenses, analyses of cash flow coverage ratios, leverage metrics, and future capital-raising ability.

Approved insurers must establish and maintain a capital plan that, at a minimum, forecasts its future financial requirements as determined under the *PMIERs* based upon projections, including expected future business, in terms of premiums, *risk-in-force*, investment returns and reserves for delinquent loans under both expected and stress economic scenarios. The stress scenario should employ macroeconomic assumptions consistent with the Federal Reserve's Comprehensive Capital Analysis and Review "severely adverse scenario." The plan must also contain contingencies for raising additional capital in anticipation of any projected shortfall. The capital plan will be subject to review upon request by *Freddie Mac*. Such contingency plans may include but are not limited to the following:

- 1) Equity or debt capital from a broad investor base such as a public offering.
- 2) *Capital support agreements* such as those provided by a parental entity or holding company. The following are the applicable requirements governing the use of *capital support agreements*:
 - a. A *capital support agreement* must be explicit such that the holding company or other third-party affirmatively and irrevocably agrees to contribute additional capital to the *approved insurer* as necessary.
 - b. A *capital support agreement* or any changes thereto must be approved in writing in advance by *Freddie Mac*, and *Freddie Mac* will evaluate agreements for terms, timing, and ultimate strength of support.
 - c. A *capital support agreement* must be available at all times and be enforceable by *Freddie Mac*, the *approved insurer's* domestic state insurance regulator, or a receiver in the event of an insolvency of the *approved insurer*. Such agreements may not be terminated as it relates to the support of the *approved insurer's* existing obligations without *Freddie Mac's* approval.
 - d. An *approved insurer* must also notify *Freddie Mac*, its domestic state insurance regulator, and any rating agency from which the *approved insurer* receives a rating, in advance of any change in such agreement(s) that could have a *material* impact on the *approved*

Financial Requirements

701 Sources and Diversification of Capital (continued)

insurer's financial or operational condition, strength of the support agreement, or the value of the *mortgage guaranty insurance* provided to *Freddie Mac*. The *approved insurer* must provide such notices *immediately* in the event of any *material* adverse change in the financial condition of the providers of such agreement(s).

- e. The terms of a *capital support agreement* must include the following:
 - i. Explicitly defined trigger events for activation of support that are designed to trigger prior to any *available assets shortfall* relative to *minimum required assets*;
 - ii. Sufficient duration of support ensuring the availability of capital when needed; and
 - iii. Termination provisions that continue to provide value to the *approved insurer* through any stress event.
 - 3) *Affiliated* entity agreements such as:
 - a. Capital maintenance, and
 - b. Minimum net worth.
 - 4) Unconditional (standby) letters of credit with trigger events for activation of support.
 - 5) *Reinsurance* with non-*affiliated* or non-exclusive *affiliated* entities, subject to *Freddie Mac's* approval and *reinsurance* eligibility guidelines.
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702 Third-Party Opinion and Risk Analytics

Freddie Mac may require an *approved insurer* to obtain a third-party opinion or analysis, prepared at the *approved insurer's* request and expense, by a *third-party risk analytics firm* selected by *Freddie Mac*.

703 Available and Minimum Required Assets

Financial adequacy is measured and represented by each *approved insurer* quarterly using a risk-based evaluation comparing *available assets* to *minimum required assets*. As discussed in Section 100, an authorized *officer* of the *approved insurer's senior management* team must certify that the *approved insurer* meets the requirements set forth below.

An *approved insurer* must maintain sufficient capital resources such that its *available assets* meet or exceed its *minimum required assets*. *Available assets* are defined to include those that are readily available to pay claims, and include the most liquid investments of an *approved insurer*. Consideration for future *mortgage guaranty insurance* premium revenue is not included in *available assets*, except to the limited extent described below for policies written prior to 2009.

Available assets for an *approved insurer* are calculated as the sum of net admitted assets for the following elements as reported in the Statutory Statement of Assets as identified below:

- 1) Cash (such as those currently listed on an *approved insurer's* Statutory Statement of Assets, [line 5] in its *convention statement*);
 - 2) Bonds (such as those currently listed on an *approved insurer's* Statutory Statement
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Financial Requirements

703

**Available and
Minimum
Required Assets
(continued)**

-
- of Assets, [line 1] in its *convention statement*);
- 3) Common and preferred shares (included at their market capitalization value, determined by the number of shares owned multiplied by the closing price of the shares on the last trading day of the reporting quarter, discounted by 25%) only if:
 - a. The stock is publicly traded, and
 - b. The *approved insurer* has complete control and authority to sell the shares.
 - 4) Receivables from investments (such as those currently listed on an *approved insurer's* Statutory Statement of Assets, [line 14] in its *convention statement*);
 - 5) Dividends of subsidiaries (with *Freddie Mac's* prior written approval) to be paid to the *approved insurer* over a time period that is no greater than:
 - a. Two (2) years, if unconditionally guaranteed by a strongly capitalized company, as determined by *Freddie Mac*, with at least an A- rating from either Standard & Poor's Ratings Services (S&P) or Fitch Ratings (Fitch), or A3 from Moody's Investors Service (Moody's); or
 - b. One (1) year, if unconditionally guaranteed by a strongly capitalized company, as determined by *Freddie Mac*, with at least an BBB- rating from either S&P or Fitch, or Baa3 from Moody's; or
 - c. Another period as approved by *Freddie Mac*;
 - 6) The following liquid assets owned by an *exclusive affiliated reinsurer*, if the *exclusive affiliated reinsurer* is a U.S. domiciled corporation that is regulated as an insurance company:
 - a. Cash,
 - b. Bonds,
 - c. Common and preferred shares (included at their market capitalization value, determined by the number of shares owned multiplied by the closing price of the shares on the last trading day of the reporting quarter, discounted by 25%) only if:
 - i. The stock is publicly traded, and
 - ii. The *exclusive affiliated reinsurer* has complete control and authority to sell the shares;
 - 7) For any individual *lender captive reinsurance* arrangement, the lesser of ceded *risk-in-force* or the trust balance for that *lender captive reinsurance* arrangement, related to loans insured by the *approved insurer*;
 - 8) 210% of the *approved insurer's mortgage guaranty insurance* premium inclusive of any amount assumed from, and net of any amount ceded to a non-*affiliated reinsurer* or non-*exclusive affiliated reinsurer* earned in the prior 12 months on policies written before 2009 (including those subsequently refinanced through the *Home Affordable Refinance Program*).
- Less,
- 9) The *approved insurer's unearned premium reserves* (such as currently listed on line 9 of an *approved insurer's* Statutory Statement of Liabilities, Surplus and Other Funds in its *convention statement*); and
 - 10) *Unearned premium reserves* of an *exclusive affiliated reinsurer*, if the *exclusive*
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Financial Requirements

703
Available and
Minimum
Required Assets
(continued)

affiliated reinsurer is a U.S. domiciled corporation that is regulated as an insurance company.

Minimum Required Assets

Minimum required assets are the greater of \$400 million or the total *risk-based required asset amount* as determined in Exhibit A. All elements above except number 8) will be included in *available assets* when determining whether the minimum requirement of \$400 million has been met.

In the event that *Freddie Mac* determines that an *approved insurer* has retained risk, provided a guaranty or assumed any other obligation in addition to any risk beyond traditional primary or pool *mortgage guaranty insurance*, which is not already captured in that *approved insurer's risk-based required asset amount*, *Freddie Mac*, may in its sole discretion increase the *minimum required assets* for that *approved insurer* to offset that additional risk or obligation as determined by *Freddie Mac*.

704
Ratings Agency
Rating

All *approved insurers*, except *newly-approved insurers*, must maintain at least one rating with a *rating agency* acceptable to *Freddie Mac*.

705
Limitations
Triggered by an
Available Assets
Shortfall

To preserve capital, the following limitations are automatically triggered when *available assets* fall below *minimum required assets*. Without *Freddie Mac's* prior written approval, an *approved insurer* with an *available assets shortfall* must not:

- 1) Pay dividends, make payments of interest or principal associated with surplus notes issued by the *approved insurer*, make any other payments unless related to commitments made prior to the development of the *available assets shortfall*, or pledge or transfer asset(s) to any *affiliate* or investor, under the following circumstances:
 - a. The *available assets shortfall* to the *minimum required assets* amount is more than the lesser of a) 10% of the *minimum required assets*, or b) \$25 million; or
 - b. An *available assets shortfall* to *minimum required assets* persists for more than one quarter;
- 2) Assume any obligations or liabilities other than those arising from *mortgage guaranty insurance* policies;
- 3) Enter into any new or alter any existing *capital support agreement*, *assumption of liabilities agreement*, or *guaranty agreement* (except for contractual agreements in the normal course of business);
- 4) Enter into any new arrangements or alter any existing arrangements under tax-sharing and intercompany expense-sharing agreements;
- 5) Invest in *affiliates*, subsidiaries or non-*affiliated* entities; or
- 6) Enter into any new risk novation or commutation transaction or any new *reinsurance* arrangement or structure.

Financial Requirements

706 Investments in and Capital Support for Other Entities

An *approved insurer* must obtain *Freddie Mac*'s prior written approval to:

- 1) Renew, incur or assume a *material* obligation or indebtedness, for another entity, contingent or otherwise, including, without limitation, an obligation to provide additional insurance, or related service or product, or to provide remedy to an obligation of a subsidiary;
 - 2) Permit a *material* change in, or acquisition of, control or beneficial ownership;
 - 3) Make changes to the corporate or legal structure involving the *approved insurer*;
 - 4) Transfer or otherwise shift assets, risk, or liabilities to any subdivision, segment, or segregated or separate account of the *approved insurer* or any *affiliate* or subsidiary;
 - 5) Assume any *material* risk other than directly providing *mortgage guaranty insurance*; or
 - 6) Provide capital, capital support, or financial guaranty to any *affiliate* or subsidiary that is either an *approved insurer* or an *exclusive affiliated reinsurer*.
-

707 Reinsurance and Risk Sharing Transactions

Approved insurers must obtain prior written approval of *Freddie Mac* to enter into any new or alter any existing *reinsurance* or *risk sharing transaction* other than those permitted that relate to a) *exclusive affiliated reinsurers* described below or b) *risk sharing transactions* with *Fannie Mae*. For any *risk sharing transaction* executed with *Fannie Mae*, *approved insurers* must provide notification to *Freddie Mac* concurrent with the public disclosure of such transaction. The *approved insurer* must obtain statutory and regulatory accounting credit for the risk transfer, and upon *Freddie Mac*'s request, provide documentation supporting the conclusion that the transfer of risk is appropriate from both accounting and regulatory perspectives. In setting the permissible reduction in *risk-in-force* when determining *minimum required assets*, *Freddie Mac* may apply a different reduction than a regulator or accounting rule would apply. The financial impact on the *approved insurer* after giving effect of *reinsurance* will be evaluated by *Freddie Mac*.

Any *risk sharing transactions* whether with a *mortgage enterprise* or an *affiliate* thereof that constitute or involve un-captive captives or performance notes, as defined by the New York State Department of Financial Services¹, are expressly prohibited.

Non-affiliated or Non-exclusive Affiliated Reinsurance

Approved insurers, with *Freddie Mac*'s written approval, may enter into *reinsurance* arrangements with *non-affiliated* or *non-exclusive affiliated reinsurers*, as defined below. *Freddie Mac* may limit the percentage of gross premium and risk that may be ceded to the *non-affiliated* or *non-exclusive affiliated reinsurer*.

Freddie Mac will not approve any *reinsurance* or *risk sharing transaction* set up under the following conditions:

- With the purpose or effect of circumventing the terms and conditions of the
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¹ New York State. State of New York Insurance Department. Mortgage Guaranty Insurance Transactions and Lenders. Circular Letter No. 2, February 1, 1999. New York, New York

Financial Requirements

707
**Reinsurance and
Risk Sharing
Transactions
(continued)**

PMIERS; or

- With a *mortgage enterprise* or an *affiliate* of a *mortgage enterprise*.

If approved, a final version of the *reinsurance* agreement, and all attachments and exhibits, must be provided to *Freddie Mac* within 30 calendar days after the closing date.

An *approved insurer* may be required to obtain an opinion from a *third-party risk analytics firm* that: (1) real risk transfer occurs for each agreement, and (2) ceded premium is commensurate with ceded risk. *Reinsurance* must provide sufficient capital relief for the *approved insurer* and provide economic benefit, as determined by *Freddie Mac*.

Minimum counterparty financial requirements for a non-*affiliated* or non-*exclusive affiliated reinsurer* or risk-sharing partner include the following:

- A strongly capitalized entity, as determined by *Freddie Mac*, that provides *reinsurance* to the ceding *approved insurer*; or
- A *reinsurer* that maintains an Insurer Financial Strength Rating of at least ‘A-’ from S&P or ‘A-’ from A.M. Best Company (A.M. Best).

Additionally, risk ceded to a non-*affiliated* or non-*exclusive affiliated reinsurer* or risk-sharing partner must be collateralized by the *reinsurer* or risk-sharing partner with liquid, highly rated assets in a trust account structured with the *approved insurer* as the designated beneficiary. Eligible trust account assets collateralizing the *reinsurer’s* obligation are limited to:

- 1) Cash in United States dollars;
- 2) U.S. Treasuries;
- 3) U.S. Federal Agency Securities (*Fannie Mae*, *Freddie Mac*, and Ginnie Mae agency mortgage-backed securities);
- 4) Money Market Funds directly holding at least 80% of the assets in U.S. Government/Treasury instruments with the remaining holdings composed of repos of U.S. Government/Treasury instruments; and
- 5) Debt obligations with maturities not to exceed three (3) years issued by a commercial entity and rated at least ‘A’ or equivalent by S&P, Fitch, or Moody’s, provided such securities are issued by an institution that is not the parent, subsidiary or *affiliate* of either the grantor or beneficiary. Such debt obligations may comprise no more than 50% of the trust account balance.

To ensure maximum risk transfer credit against *PMIERS* financial requirements, risk transfer arrangements must be collateralized with at least the following amounts:

- 1) If the *reinsurer* maintains an Insurer Financial Strength Rating of greater than ‘A+’ from S&P, or ‘A+’ from A.M. Best, then the *reinsurer* must collateralize its obligations by maintaining a balance in the trust account of no less than 20% of the incremental *risk-based required asset amount* that would be required of the *approved insurer* if that risk were not ceded under the *reinsurance* arrangement. If the *reinsurer* is rated by both S&P and A.M. Best, the *reinsurer* collateral obligation requirement must be determined using the lower of the two Insurer Financial Strength Ratings.
 - 2) If the *reinsurer’s* Insurer Financial Strength Ratings fall below those specified in 1) above, but maintains an Insurer Financial Strength Rating of at least ‘A-’
-

Financial Requirements

707

Reinsurance and Risk Sharing Transactions (continued)

through 'A+' from S&P, or 'A-' through 'A+' from A.M. Best, or the *reinsurer* maintains an Insurer Financial Strength Rating as provided in this paragraph, then the *reinsurer* must collateralize its obligations by maintaining a balance in the trust account of no less than 25% of the incremental *risk-based required asset amount* that would be required of the *approved insurer* if that risk were not ceded under the *reinsurance* arrangement. If the *reinsurer* is rated by both S&P and A.M. Best, the *reinsurer* collateral obligation requirement must be determined using the lower of the two Insurer Financial Strength Ratings.

- 3) If the *reinsurer's* Insurer Financial Strength Ratings fall below those specified in 2) above, but maintains an Insurer Financial Strength Rating of at least 'BBB-' from S&P, or 'B-' from A.M. Best, or the *reinsurer* maintains an Insurer Financial Strength Rating as provided in this paragraph, then the *reinsurer* must collateralize its obligations by maintaining a balance in the trust account of no less than 50% of the incremental *risk-based required asset amount* that would be required of the *approved insurer* if that risk were not ceded under the *reinsurance* arrangement. Additionally, premiums paid by the *approved insurer* to the *reinsurer* under the *reinsurance* arrangement must be diverted to the trust account until either a) the *reinsurer* meets the Insurer Financial Strength Ratings specified in 2), or b) collateral in the trust equals 100% of the *risk-based required asset amount* that would be required of the *approved insurer* if the risk were not ceded under the *reinsurance* arrangement. If the *reinsurer* is rated by both S&P and A.M. Best, the *reinsurer* collateral obligation requirement must be determined using the lower of the two Insurer Financial Strength Ratings.
- 4) If the *reinsurer's* Insurer Financial Strength Ratings fall below those specified in 3) above, then the *risk-based required asset amount* for the *approved insurer* will not be reduced by any amount of risk transferred to the down-graded *reinsurer*, but *available assets* will include an amount equal to the lesser of a) the value of the trust account established to collateralize the *reinsurance* arrangement, or b) the incremental *risk-based required asset amount* that would be required of the *approved insurer* if that risk were not ceded under the *reinsurance* arrangement.

Freddie Mac may require initial collateral levels higher than those specified in 1), 2) and 3) above should its review of the *reinsurer* determine it is warranted. The trust account assets must be subject to valuation no less frequently than monthly and the trust account balance must remain at least equal to the amount determined in 1), 2) or 3) above, as applicable.

Exclusive Affiliated Reinsurance

Quota share reinsurance arrangements with *exclusive affiliated reinsurers* are permitted without *Freddie Mac's* approval as long as gross risk or ceded premium does not exceed 25% of the risk or premium, respectively, unless the *reinsurance* is related to compliance with regulatory loan level coverage limits. *Excess of loss reinsurance* arrangements with *exclusive affiliated reinsurers* are not permitted without prior *Freddie Mac* approval.

An *exclusive affiliated reinsurer* must be a strongly capitalized *affiliate*, as determined by *Freddie Mac*, of a ceding *approved insurer* that provides *reinsurance* to the ceding *approved insurer*.

The financial impact on the *approved insurer* after giving effect of *reinsurance* will be evaluated by *Freddie Mac*.

Other Risk Sharing Transactions

Financial Requirements

707
Reinsurance and
Risk Sharing
Transactions
(continued)

An *approved insurer* must obtain written approval from *Freddie Mac* prior to entering into any other *risk sharing transactions*. *Risk sharing transactions* that are eligible for consideration are those that:

- Have not been prohibited by a state that asserts extraterritoriality for insurance regulation (whether or not that state's extraterritorial authority would apply to the *risk sharing transaction* or the *approved insurer* in the absence of this requirement), and
- Do not violate (i) the *applicable law* established by any state asserting extraterritoriality for such *risk sharing transaction* (whether or not that state's extraterritorial authority would apply to the *risk sharing transaction* or the *approved insurer* in the absence of this requirement), and (ii) all other *applicable laws*.

708
Lender Captive
Reinsurance
Contracts

Approved insurers may not enter into any new *lender captive reinsurance* contracts nor cede any additional risk to existing *lender captive reinsurance* arrangements.

The *approved insurer* must obtain prior written approval from *Freddie Mac* to:

- 1) Allow the payment of dividends or distribute funds to the parent or *affiliates* in amounts greater than permitted by the *lender captive reinsurance* contract;
- 2) Effect a *material* or economically adverse alteration or amendment to a *lender captive reinsurance* contract; or
- 3) Terminate any *lender captive reinsurance* contract unless the *approved insurer* receives at least 80 percent of the value of assets in the captive trust.

The ceding *approved insurer* must monitor the investment of the captive trust assets, and when investments are determined to be noncompliant according to *applicable law* or transaction documents, direct that the trust assets be brought into compliance.

Notices/Reports/Monitoring

800
Statement of
Purpose

An *approved insurer* must keep *Freddie Mac* apprised of all aspects of its ownership and operations that might have a bearing on the financial or operational condition of the *approved insurer* or the value of the *mortgage guaranty insurance* provided to *Freddie Mac*.

801
Notices

An *approved insurer*, and any *exclusive affiliated reinsurer*, must notify *Freddie Mac* *immediately* in writing of any of the events listed below. The notice must describe the event with reasonable specificity and without sole reliance on other documents.

- 1) Upon the occurrence of any event, action or circumstance that would require a notice on SEC Form 8K if the *approved insurer* is subject to such requirement.
 - 2) Upon receipt of notice of *material* noncompliance with any *applicable law*.
 - 3) Upon receipt of notice of investigation of, or *material* action from, any federal, state, local government agency, or any regulatory or enforcement body.
 - 4) Upon discovery of any *material* failure to meet the *PMIERS*, the specific terms and conditions of approval, or any other requirement imposed by *Freddie Mac*.
 - 5) Upon receipt of notice that the *approved insurer* has or will be placed into *run-off*, conservatorship, receivership, liquidation or state of supervisory control by its *domestic state insurance regulator*. The *approved insurer* must provide *Freddie Mac* the actual content or *material* substance of any corrective order or similar regulatory directive issued in connection with such action.
 - 6) Upon any *material* change in its ownership, control or organization. Such change may include, but is not limited to, a merger, consolidation, sale or transfer of stock, name change, change in its *senior management* or the membership of its board of directors.
 - 7) Upon any *material* adverse change in the financial condition or performance of an *approved insurer* or actions or events that threaten *material* adverse change.
 - 8) Upon becoming subject to any judgment, order, finding, or regulatory action that would adversely affect the *approved insurer's* ability to meet or otherwise fulfill any requirement of the terms and conditions of the *PMIERS* or the conditions of *Freddie Mac's* approval of the *approved insurer*, or that could adversely impact its claims paying ability or the ordinary conduct of its business.
 - 9) Upon obtaining final internal approval of any change to any existing *capital support agreement(s)* or execution of a new *capital support agreement* for the benefit of, or provided by, the *approved insurer* that could have a *material* adverse impact on the value of the *mortgage guaranty insurance* provided to *Freddie Mac* or the financial or operational condition of the *approved insurer*.
 - 10) Upon (i) any filing for federal bankruptcy by, or (ii) issuance by a state or federal court, or other applicable entity with appropriate authority of, an order of liquidation, rehabilitation, conservatorship, or receivership against the *approved insurer* or any entity holding a controlling interest in the *approved insurer*.
 - 11) Upon any *material* adverse change in the financial condition, rating, or performance of any provider of *reinsurance* (including *lender captive reinsurers*) for the benefit of the *approved insurer*, or actions or events that threaten such *material* adverse change.
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Notices/Reports/Monitoring

801 Notices (continued)

- 12) Upon placement of its Insurer Financial Strength Rating on ratings watch, or the upgrade, confirmation, affirmation, downgrade, withdrawal, or discontinuance of such rating by any *rating agency*.
- 13) Upon discovery of any existing activity that could create a *material* obligation or indebtedness for the *approved insurer*, contingent or otherwise, including, without limitation, an obligation to provide to another entity additional insurance, or related service or product, or to provide remedy to an obligation of a subsidiary, and including non-insurance related contingent liabilities (e.g., contract underwriting).
- 14) Upon the resignation or termination of its certified public accountants.
- 15) Upon a *material* default on a policy or other contractual obligation to any *insured* or third-party beneficiary of such insurance (e.g., *Freddie Mac*), which is not cured in accordance with the contract terms or, if such contract terms do not specify a time for such cure, within a reasonable time.
- 16) Upon a determination that any *risk sharing transaction*, or *mortgage guaranty insurance* of loans not acquired by *Freddie Mac*, is likely to have a *material* adverse impact on the value of the insurance provided to *Freddie Mac* or the financial or operational condition of the *approved insurer*.
- 17) Upon a determination that any change, event, or circumstance, whether by contract, law, or otherwise, has or will have a *material* adverse impact on the value of the *mortgage guaranty insurance* provided to *Freddie Mac* or the financial or operational condition of the *approved insurer*.
- 18) With as much advance notice as possible, but no later than concurrently with the announcement of changes to an *approved insurer's* published underwriting guidelines, published rates for any borrower or lender-paid *mortgage guaranty insurance* or servicing guidelines.
- 19) Upon discovery of any conflict between *applicable laws* and any provision of the *PMIERS* or the terms and conditions of approval.
- 20) Upon discovery of any loss event related to Section 311 of the *PMIERS* that exceeds \$100,000.
- 21) If applicable, upon receipt of a notice from the *approved insurer's* fidelity bond or errors and omissions insurance carrier regarding the intended cancellation, reduction, non-renewal, or restrictive modification of such policies, the *approved insurer* must provide a copy of the notice to *Freddie Mac* with an explanation of the actions being taken or intending to be taken to ensure it continues to satisfy the insurance requirements described in Section 311 of the *PMIERS*.

802 Reporting

Operational Performance Scorecard

Each quarter, an *approved insurer's* operational performance will be evaluated by *Freddie Mac* using the *Operational Performance Scorecard*, which contains metrics chosen to capture specific operating performance results. *Freddie Mac* will establish target expectations for those metrics to evaluate performance on an absolute and relative basis. *Freddie Mac* may, from time to time, find it necessary to make changes to the *Operational Performance Scorecard* such as updating metrics or adjusting target levels to reflect changing business conditions or emerging issues. Should a change be necessary, *Freddie Mac* will provide the *approved insurer* with written notice sixty (60) calendar days prior to

802 Reporting (continued)

the effective date of any such action.

An *approved insurer* must implement operational procedures that provide for accurate and timely reporting of results and the data necessary to derive the scorecard metrics. To facilitate this reporting and analysis, the *approved insurer* must undertake the following:

- Within 45 calendar days after the end of each quarter, submit a file containing the requested scorecard data as described in the *Operational Performance Scorecard* template (Exhibit B).
- Within 30 calendar days after the end of each month submit a Monthly Claims Activity Report (Exhibit C) containing loan-level activity including, but not limited to, data on claims, rescissions, denials, appeals and rebuttals.

If the *Operational Performance Scorecard* results do not meet the thresholds established by *Freddie Mac*, the *approved insurer* may be subject to remediation actions. The results of an *approved insurer's Operational Performance Scorecard*, as quantified by its aggregate score, will fall into one of four categories shown below:

- Acceptable Performance
- Low Risk
- Medium Risk
- High Risk

While the degree of remediation will correlate to the level of risk, the remediation process generally will follow a progression of steps starting with 1) discussing the issue with the *approved insurer* to understand the underlying causes and, if necessary, require the development of an action plan to address the issue; 2) implementing restrictions on business practices or charge financial penalties for failing to satisfy agreed upon remediation actions; and 3) taking actions to eliminate unacceptable levels of *Freddie Mac's* exposure to the *approved insurer*.

The remediation options that *Freddie Mac* may consider include, but are not limited to, those options listed in Section 901.

Additional Quarterly Reports and Processes

Within 45 calendar days after the end of each quarter, an *approved insurer* must provide the following reports to *Freddie Mac* (except for the last quarter of each calendar year, for which the reporting is due 60 calendar days after the end of that quarter):

- 1) *Freddie Mac* Form 443 – Mortgage Insurers' Quarterly Report,
 - 2) Quarterly statutory financial statements of the insurer and its subsidiaries. The *approved insurer* must also notify *Freddie Mac* in the event that funds have been removed from the *contingency reserve* during the previous quarter, if such funds were removed prior to the 10-year holding period specified in the *Model Act*, Section 16(c) - Reserves.
 - 3) Quarterly Portfolio and Financial Supplement (Exhibit D).
 - 4) A consolidated report of all *lender captive reinsurance* agreements and individual reports for each of the *approved insurer's* top 10 *lender captive reinsurers* (measured by the aggregate dollar amount of ceded *risk-in-force* with such *lender captive reinsurer*) and any *lender captive reinsurer* for *lender captive reinsurance*
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Notices/Reports/Monitoring

802 Reporting (continued)

arrangements above 25% ceded risk or premium.

- 5) A consolidated report of all *reinsurance* agreements with *reinsurers* that are not *lender captive reinsurers* and individual reports for each of the *approved insurer's* top 10 *reinsurers* that are not *lender captive reinsurers* (measured by the aggregate dollar amount of ceded *risk-in-force* with such *reinsurer*).
- 6) Quarterly Portfolio Loan Level Dataset (Exhibit F)

Annual Reports

By April 15 of each year, an *approved insurer*, and any *exclusive affiliated reinsurer*, must provide the following reports to *Freddie Mac* (unless such reports are available on or through links on the web site of the *approved insurer* or its parent company within such time period):

- 1) Annual consolidated GAAP financial statements for non-public entities.
 - 2) An annual *convention statement* as filed with state insurance regulators and all correspondence relating thereto.
 - 3) An annual certification (Exhibit E) which states whether the *approved insurer* has fully met the *PMIERs*. The form of such certificate will be prescribed by *Freddie Mac* and must be signed by an authorized *officer* of the *approved insurer's senior management* team.
 - 4) An audit report prepared by an independent certified public accountant or in lieu thereof a copy of Form 10K for the *approved insurer* or its parent company as filed with the Securities and Exchange Commission (SEC), attaching a schedule that reconciles the audited consolidated financial statements included in the Form 10K with the statutory financial statements of the *approved insurer*, if such reconciling schedule exists (reconciling schedule must be provided as soon as available if not typically available by April 15).
 - 5) The *approved insurer's* statement of actuarial opinion on reserve adequacy.
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803 Supplemental Information

At any time, *Freddie Mac* reserves the right to request any additional reports or documentation relating to the *approved insurer* having met (or its failure to meet) the *PMIERs*, or the practices of an *approved insurer* or any *exclusive affiliated reinsurer*.

804 Periodic Audit Reviews

To evaluate the *approved insurer's* ongoing ability to meet the *PMIERs*, *Freddie Mac* may conduct at its discretion reviews and audits of the business policies, procedures and practices of the *approved insurer* and any *exclusive affiliated reinsurer*. *Freddie Mac* must be provided with access to documents and staff as necessary to complete the review.

Reviews may be conducted on-site or remotely, and may include any aspect of the *approved insurer's* business operations, including but not limited to: organization and business strategy, financial statements, accounting and tax practices, investment portfolio management, risk management, insured portfolio characteristics and performance, *reinsurance*, lender/servicer management, quality control, underwriting guidelines, pricing, application and commitment/certificate issuance process, loss mitigation, claims processing and rescissions, and information technology systems.

Failure to Meet Requirements

900 General Policy

Freddie Mac may take action(s) if it believes an *approved insurer* has violated, is violating or is about to violate any of the *PMIERS*, including any additional conditions of eligibility or continued eligibility set by *Freddie Mac* applicable to the *approved insurer*, or if *Freddie Mac* has significant concerns regarding the *approved insurer's* i) financial or operational condition, ii) ability to honor obligations to *Freddie Mac*, iii) ability to write new insurance, or iv) ability to maintain satisfactory operational performance. Such actions may include but are not limited to:

- 1) Communication of a written warning to the *approved insurer* that expresses *Freddie Mac's* concern and suggests possible remediation actions in accordance with Sections 901 and 902.
- 2) Issuance of a written warning to an *approved insurer* that it has violated, is violating, or is about to violate any of the provisions of the *PMIERS*, and that unless corrective action is taken within a specified time period, *suspension* or *termination* may result.
- 3) Imposition of additional terms and conditions of eligibility including the remediation options in Section 901.

901 Remediation Options, Suspension and Termination

If an *approved insurer* fails to meet the *PMIERS*, it will be subject to remediation actions up to and including *suspension* and *termination*. Additionally, *Freddie Mac* may notify an *approved insurer's* regulator of remedial actions taken by *Freddie Mac* or may make such remedial actions public. Remediation actions that may be taken by *Freddie Mac* or be required of the *approved insurer* include but are not limited to:

- 1) Engage in more frequent dialogue or visits, or require the *approved insurer* to provide additional information or data.
 - 2) Require the *approved insurer* to provide an action plan acceptable to *Freddie Mac* to address specific requirements not met.
 - 3) Impose business volume or risk limits for loans to be acquired by *Freddie Mac* that are insured by the *approved insurer*.
 - 4) Limit the risk characteristics of loans to be acquired by *Freddie Mac* that are insured by the *approved insurer*.
 - 5) Increase frequency of QC reviews.
 - 6) Restrict *delegated underwriting*.
 - 7) Increase the *minimum required assets*.
 - 8) Further limit the types of assets that may be considered *available assets*.
 - 9) Require the *approved insurer* to obtain additional capital.
 - 10) Require the *approved insurer* to obtain parental or other capital support.
 - 11) Commute or restructure existing *risk-in-force* for loans acquired by *Freddie Mac*.
 - 12) Limit variances to the *approved insurer's* underwriting guidelines.
 - 13) Limit or deny the acceptability of an *affiliate's* product or services in connection with *Freddie Mac's* business.
 - 14) Restrict or deny participation in new products, initiatives or programs offered by *Freddie Mac*.
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Failure to Meet Requirements

**901
Remediation
Options,
Suspension and
Termination
(continued)**

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- 15) Differentially price loans acquired by *Freddie Mac* that are insured by the *approved insurer*.
 - 16) Decline insurance renewal or exercise other policy cancellation provisions for loans acquired by *Freddie Mac*, or so instruct servicers, and obtain replacement coverage from another *approved insurer*.
 - 17) Impose compensatory fees for losses suffered on loans acquired by *Freddie Mac* as a result of the *approved insurer's* failure to meet the *PMIERS*.
 - 18) Issue a demand for any other specific corrective action.
 - 19) *Suspend* approval status.
 - 20) *Terminate* approval status.

Before *suspending, terminating* or taking any of the actions set forth below against an *approved insurer, Freddie Mac* will provide the *approved insurer* with written notice sixty (60) calendar days prior to the effective date of any such action during which period *Freddie Mac* and the *approved insurer* will engage in good faith discussions to address *Freddie Mac's* concerns. In the event that *Freddie Mac* and the *approved insurer* are unable to reach agreement within the 60-day period, the remediation action will take effect on the sixtieth day after *Freddie Mac* first provides such notice to the *approved insurer*. However, if *Freddie Mac* determines, in its sole and absolute discretion, that a shorter notice period or no notice period is necessary or advisable to protect *Freddie Mac's* interests, *Freddie Mac* may take any action it deems necessary and upon the timing it deems necessary, up to and including *termination* of the *approved insurer*. In such event, *Freddie Mac* will provide a 60-day period subsequent to *Freddie Mac's* action for the *approved insurer* to address *Freddie Mac's* concerns.

- 1) Imposing business volume or risk limits on loans to be acquired by *Freddie Mac* and insured by the *approved insurer*,
 - 2) Limiting the risk characteristics of loans to be acquired by *Freddie Mac* and insured by the *approved insurer*,
 - 3) Increasing the frequency of QC reviews,
 - 4) Restricting *delegated underwriting*,
 - 5) Increasing the *minimum required assets*,
 - 6) Further limiting the types of assets that may be considered *available assets*,
 - 7) Requiring the *approved insurer* to obtain additional capital,
 - 8) Requiring the *approved insurer* to obtain parental or other capital support,
 - 9) Commuting or restructuring existing *risk-in-force* for loans acquired by *Freddie Mac*,
 - 10) Limiting variances to the *approved insurer's* underwriting guidelines,
 - 11) Limiting or denying the acceptability of an *affiliate's* product or services,
 - 12) Differentially pricing loans acquired by *Freddie Mac* that are insured by the *approved insurer*, and
 - 13) Declining insurance renewal or exercising other policy cancellation provisions for loans acquired by *Freddie Mac*, or so instructing servicers, and obtaining replacement coverage from another *approved insurer*.
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Failure to Meet Requirements

902
Voluntary
Suspension or
Termination

If an *approved insurer* wishes to voluntarily discontinue meeting the terms and conditions of approval, the *approved insurer* must inform *Freddie Mac* 60 calendar days in advance, in writing. Upon receipt of written notification, *Freddie Mac* will *suspend* or *terminate* the *approved insurer*.

903
Consequences of
Suspension

During a period of *suspension*, *Freddie Mac* will not acquire mortgages insured by a *suspended* private mortgage insurer. However, *Freddie Mac* will permit renewals of existing *mortgage guaranty insurance* coverage issued by the *suspended* private mortgage insurer for mortgages serviced for *Freddie Mac* and provide lenders appropriate notices consistent with the foregoing actions.

904
Consequences of
Termination

Freddie Mac will not acquire mortgages insured by a *terminated approved insurer*, and renewals of existing *mortgage guaranty insurance* for mortgages serviced for *Freddie Mac* will not be permitted.

Risk-Based Required Asset Amount

Total Risk-Based Required Asset Amount

The total *risk-based required asset amount* for an *approved insurer* is a function of its *direct RIF* and the risk profile of the associated loans. The *risk-based required asset amount* is computed as described in this exhibit using tables of factors with several risk dimensions.

The *risk-based required asset amount* for performing primary mortgage guaranty insurance is also subject to a floor equal to 5.6% of performing primary adjusted RIF to ensure that such exposure is supported by a minimum amount of assets, irrespective of the risk profile of the covered loans. The *risk-based required asset amount* for pool insurance considers both the factors in the tables and the *net remaining stop loss* for the pool insurance policy.

The *direct RIF* used to calculate the *risk-based required asset amount* may be adjusted to reflect risk ceded to or assumed from other parties.

Adjustments to RIF for Risk Ceded to or Assumed From Other Parties

Starting with the amount of the *approved insurer's direct RIF*, adjustments will be made to add or deduct certain risk ceded to, or assumed from, other parties to obtain *adjusted RIF*, which is used to compute the total *risk-based required asset amount* described in the sections that follow.

The *approved insurer* must seek guidance from *Freddie Mac* to determine the amount of ceded risk that may be deducted or added in calculating *adjusted RIF*.

In general, the following are the adjustments to *direct RIF* that will be considered by *Freddie Mac*:

- All *RIF* ceded to *non-exclusive affiliated reinsurers* or *non-affiliated reinsurers* on a *quota share* basis will generally be deducted in its entirety from the *approved insurer's direct RIF* if the *reinsurance* arrangement includes the following terms:
 - 1) The *reinsurance* arrangement is not structured with a limit of liability that might limit or reduce benefits paid to the *approved insurer* if all covered loans defaulted;
 - 2) The *reinsurance* arrangement provides coverage on an incurred basis for the lesser of ten years or the remaining life of the reinsured policies;
 - 3) The *reinsurance* arrangement covers a profile of loans not materially different from the profile of all loans with a similar vintage covered by the *approved insurer*; and
 - 4) The *reinsurer* entity and the *reinsurance* arrangement meet all terms required in Section 707.
- If the *reinsurance* arrangement meets condition 4) above, but not conditions 1) – 3), the adjustment to the *approved insurer's direct RIF* will be based upon an analysis of the *reinsurance* structure, including a forecast of losses covered by the *reinsurance* arrangement under the stress scenario used to derive the *risk-based required asset amount* factors. Such analysis and related adjustment to *direct RIF* will be updated periodically by *Freddie Mac*.
- If the *reinsurance* arrangement does not include any of the terms listed above, the risk ceded to *non-exclusive affiliated reinsurers* or *non-affiliated reinsurers* on a *quota share* basis may be deducted in an amount determined by *Freddie Mac*, based upon a forecast of losses covered by the *reinsurance* arrangement under the stress scenario used to derive the *risk-based required asset amount* factors.

- In making adjustments for risk ceded to *non-exclusive affiliated reinsurers* or *non-affiliated reinsurers* on an *excess of loss* or other basis not consistent with a *quota share* arrangement, *Freddie Mac* will deduct only the amount of *direct RIF* and related *risk-based required asset amount* ceded below a loss threshold equal to the *risk-based required asset amount* that would otherwise apply to the *direct RIF*. For the ceded *RIF* and related *risk-based required asset amount* to be deducted, the attachment point, expressed in dollars, for an *excess of loss* arrangement must be below what the *risk-based required asset amount* would be if applied to the *direct RIF*, i.e., if the *reinsurance* arrangement were not in place. Additionally, no *RIF* or any related *risk-based required asset amount* ceded above that same *risk-based required asset amount* will be deducted. Because the *risk-based required asset amount* may decline over time as the *direct RIF* amortizes or pays off, the amount of ceded risk and related *risk-based required asset amount* deducted may also decline as a result. The amount of ceded risk and related *risk-based required asset amount* deducted will be evaluated periodically by *Freddie Mac*.
- All *risk sharing transactions* must meet the requirements described in Section 707.

Note that risk ceded to *exclusive affiliated reinsurers* or *captive reinsurers* will not be deducted in calculating *adjusted RIF*.

Risk-Based Required Asset Amount Factors

The *risk-based required asset amounts* for loans insured with primary *mortgage guaranty insurance* and pool insurance are determined by using *risk-based required asset amount* factors that are applied to the *adjusted RIF* as determined above. These *risk-based required asset amount* factors are segmented according to the following risk characteristics:

- The original LTV ratio of the loan
- The original credit score, defined as a representative credit score that meets the guidelines of both *Freddie Mac* and *Fannie Mae*
- The vintage classification, based upon the note date of the insured loan:
 - Pre-2005
 - 2005-2008
 - 2009-June 2012
 - Post June 2012
- Whether or not the loan was refinanced through *HARP*
- Delinquency or claim status

Tables 1 – 8 below are the *risk-based required asset amount* factor tables. These tables will be updated every two (2) years and may be updated more frequently if there is a significant change in macroeconomic conditions or loan performance. *Freddie Mac* will provide the *approved insurer* with written notice one hundred eighty (180) calendar days prior to the effective date of table updates.

Original Credit Score requirements are based on a representative credit score that meets the guidelines of both *Fannie Mae* and *Freddie Mac*. Loans reported without a representative credit score will be assigned a factor representing the lowest (i.e., most conservative) credit score range shown in each of the applicable *risk-based required asset amount* factor tables. For loans with multiple borrowers, if one borrower has a credit score and the other borrower(s) does not have a credit score, the factor will be assigned using the representative credit score of the borrower with a score, disregarding the borrower(s) without a credit score.

Loans reported without other key data elements such as Loan Vintage, Original LTV, Loan Payment Status, HARP LTV, HARP Credit Score, will be assigned the highest (i.e., most conservative) applicable factors.

Exhibit A

Likewise, loans reported with missing data for characteristics related to the multipliers in Table 5 will be treated as noted in the Table 5 footnotes.

Table 1:

Loan Vintage: Pre-2005

Loan Payment Status: Performing (current or not more than one missed monthly payment)

Loan Purpose: non-HARP

| Original LTV | Original Credit Score | | | | |
|----------------|-----------------------|---------|---------|---------|---------|
| | <620 | 620-679 | 680-739 | 740-779 | 780-850 |
| LTV <=85 | 4.09% | 2.77% | 1.07% | 1.00% | 1.00% |
| 85 < LTV <= 90 | 4.80% | 3.78% | 2.00% | 1.00% | 1.00% |
| 90 < LTV <= 95 | 5.12% | 3.66% | 2.29% | 1.07% | 1.00% |
| LTV > 95 | 7.98% | 5.13% | 2.73% | 1.47% | 1.00% |

Table 2:

Loan Vintage: 2005-2008

Loan Payment Status: Performing (current or not more than one missed monthly payment)

Loan Purpose: non-HARP

| Original LTV | Original Credit Score | | | | |
|----------------|-----------------------|---------|---------|---------|---------|
| | <620 | 620-679 | 680-739 | 740-779 | 780-850 |
| LTV <=85 | 11.42% | 8.27% | 5.28% | 2.83% | 1.39% |
| 85 < LTV <= 90 | 15.12% | 10.73% | 6.74% | 3.69% | 2.06% |
| 90 < LTV <= 95 | 17.68% | 12.80% | 8.22% | 4.82% | 2.89% |
| LTV > 95 | 22.02% | 17.04% | 11.75% | 7.27% | 4.35% |

Table 3:

Loan Vintage: 2009-June 2012

Loan Payment Status: Performing (current or not more than one missed monthly payment)

Loan Purpose: non-HARP

| Original LTV | Original Credit Score | | | | | | |
|----------------|-----------------------|---------|---------|---------|---------|---------|---------|
| | <620 | 620-679 | 680-699 | 700-719 | 720-739 | 740-759 | 760-850 |
| LTV <=85 | 9.61% | 4.06% | 2.30% | 1.86% | 1.24% | 1.00% | 1.00% |
| 85 < LTV <= 90 | 12.86% | 8.87% | 6.02% | 4.81% | 3.62% | 2.76% | 1.60% |
| 90 < LTV <= 95 | 20.08% | 14.27% | 10.15% | 8.17% | 6.53% | 4.98% | 2.98% |
| LTV > 95 | 22.08% | 15.70% | 11.16% | 8.99% | 7.18% | 5.48% | 3.28% |

Table 4:
Loan Vintage: Post June 2012
Loan Payment Status: Performing (current or not more than one missed monthly payment)
Loan Purpose: non-HARP

| Original LTV | Original Credit Score | | | | | | |
|----------------|-----------------------|---------|---------|---------|---------|---------|---------|
| | <620 | 620-679 | 680-699 | 700-719 | 720-739 | 740-759 | 760-850 |
| LTV <=85 | 13.09% | 9.17% | 5.85% | 4.66% | 3.61% | 2.73% | 1.58% |
| 85 < LTV <= 90 | 21.22% | 14.34% | 10.04% | 8.14% | 6.63% | 5.07% | 3.07% |
| 90 < LTV <= 95 | 26.43% | 17.45% | 12.96% | 10.50% | 8.95% | 6.91% | 4.39% |
| LTV > 95 | 29.07% | 19.20% | 14.25% | 11.55% | 9.84% | 7.60% | 4.83% |

Table 5:
Loan Vintage: Post 2008¹
Loan Payment Status: Performing (current or not more than one missed monthly payment)
Loan Purpose: non-HARP

Multipliers for Post 2008¹ Loans with Certain Risk Features

| Risk Feature ² | Multiplier |
|---|------------|
| Not underwritten with full documentation ³ | 3.00 |
| Investment property at origination | 1.75 |
| DTI ratio greater than 50% ⁴ | 1.75 |
| Mortgage payment is not fully amortizing ⁵ | 2.00 |
| Cash out refinance | 1.50 |
| Original maturity term 20 years or less | 0.50 |
| LPMI with Original LTV greater than 90% ⁶ | 1.10 |
| LPMI with Original LTV less than or equal to 90% ⁶ | 1.35 |

¹ The multipliers for Lender Paid Mortgage Insurance (LPMI) apply to insured loans with note dates on or after January 1, 2016.

² If the *approved insurer* does not have, or does not provide to *Freddie Mac*, data to determine any one or more of the listed risk features, then for purposes of this section, the risk will be assumed to exist, and the associated multiplier(s) will apply.

³ Full documentation means documentation that is generally consistent with the documentation requirements of either Freddie Mac's or Fannie Mae's (i) Guide or (ii) *AUS*. The *approved insurer* must disclose any variances to the *Fannie Mae* or *Freddie Mac* documentation requirements upon *Freddie Mac's* request, and *Freddie Mac* retains the right to make a final determination as to characterization of the loan documentation type for the quarterly submission of Exhibit F.

⁴ Monthly debt-to-income (DTI) ratio determined in accordance with the standards specified in 12 C.F.R. § 1026.43, including Appendix Q.

⁵Applicable to mortgage loans that have an interest-only period, potential or scheduled negative amortization, or a balloon feature.

⁶Because LPMI is not subject to the borrower-based cancellation or termination required under the Homeowners Protection Act of 1998 (HOPA) and is generally maintained for the life of the loan, *approved insurers* will have a longer risk exposure to LPMI as compared to their risk exposure to Borrower Paid Mortgage Insurance (BPMI) with all other terms of coverage held equal. These multipliers reflect the incremental risk associated with LPMI's longer risk exposure. For the purpose of calculating *the risk-based required asset amount*, the LPMI multipliers are applicable to all types of lender-paid *mortgage guaranty insurance* that are not subject to (i) an automatic termination required under HOPA, or (ii) an automatic termination consistent with HOPA's mortgage insurance termination requirements for BPMI.

Table 6:
Loan Vintage: Post June 2012
Loan Payment Status: Performing (current or not more than one missed monthly payment)
Loan Purpose: non-HARP

Seasoning Weights for Loans Aged 25 Months or More

| Loan Age ¹ | Weight |
|---------------------------------------|--------|
| 25 through 36 months | 88% |
| More than 36 months through 48 months | 81% |
| More than 48 months through 60 months | 78% |
| More than 60 months | 73% |

¹ Loan Age is calculated as the number of whole months between the origination date and the reporting date.

Table 7:
Loan Vintage: as permitted by HARP guidelines
Loan Payment Status: Performing (current or not more than one missed monthly payment)
Loan Purpose: HARP

| HARP LTV* | HARP* Credit Score | | | | | | |
|------------------|--------------------|---------|---------|---------|---------|---------|---------|
| | <620 | 620-679 | 680-699 | 700-719 | 720-739 | 740-759 | 760-850 |
| LTV <=85 | 2.36% | 1.46% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% |
| 85 < LTV <= 90 | 5.11% | 2.80% | 1.68% | 1.40% | 1.09% | 1.00% | 1.00% |
| 90 < LTV <= 95 | 7.16% | 4.10% | 2.42% | 2.08% | 1.59% | 1.11% | 1.00% |
| 95 < LTV <= 100 | 9.31% | 5.35% | 3.33% | 2.86% | 2.09% | 1.48% | 1.00% |
| 100 < LTV <= 105 | 9.72% | 5.44% | 3.47% | 2.79% | 2.21% | 1.58% | 1.00% |
| LTV > 105 | 18.63% | 11.61% | 7.79% | 6.73% | 5.54% | 4.35% | 2.63% |

*As of the HARP refinance date.

Table 8:
Non-performing Loans (more than one missed monthly payment)

| Delinquency Status | Factor |
|--|--------|
| 2 – 3 Missed monthly payments, no claim filed | 55% |
| 4 – 5 Missed monthly payments, no claim filed | 69% |
| 6 – 11 Missed monthly payments, no claim filed | 78% |
| >= 12 Missed monthly payments, no claim filed | 85% |
| Pending Claims | 106% |

I. Calculating the *Risk-Based Required Asset Amount for Performing Primary Mortgage Guaranty Insurance*:

The *risk-based required asset amount for performing primary mortgage guaranty insurance* is the greater of a) the sum of the products of the *risk-based required asset amount* factors in the tables above multiplied by the *performing primary adjusted RIF* for each cell, or b) the product of 5.6% multiplied by the aggregate of the *performing primary adjusted RIF*.

Calculation Steps:

- i. For each performing loan, determine the applicable *risk-based required asset amount* factor:
 1. Find the applicable factor found in Tables 1, 2, 3, 4 and 7 above, based upon the Original Credit Score, Original LTV, Vintage, and Loan Purpose of the insured loan; however, for loans refinanced through the *HARP* program, use the LTV ratio and credit score at the time of the refinance.
 2. For loans that a) meet the criteria specified in the header for Table 5 above, and b) have one or more of the risk features specified in Table 5, multiply the factor found in Step (I.i.1) by each of the applicable multipliers specified in Table 5.
 3. For loans that meet the criteria in the header for Table 6, multiply the result of Step (I.i.2) by the applicable seasoning weight.
 4. The *risk-based required asset amount* factor is the lesser of the product derived in Step (I.i.3) or 100%.
- ii. Multiply the *performing primary adjusted RIF* for each insured loan by the applicable *risk-based required asset amount* factor found in Step (I.i.4).
- iii. Sum the products derived in Step (I.ii).
- iv. Divide the sum from Step (I.iii) by the aggregate of the *performing primary adjusted RIF* used in Step (I.ii). If the result is greater than 5.6%, then the *risk-based required asset amount for performing primary mortgage guaranty insurance* is the sum calculated in Step (I.iii); otherwise, the *risk-based required asset amount for performing primary mortgage*

guaranty insurance is the aggregate of the *performing primary adjusted RIF* used in Step (I.ii) multiplied by 5.6%.

v. Example 1:

1. For Step (I.i), an MI company has:
 - a. \$80,000,000 of *performing primary adjusted RIF* characterized as non-*HARP*, 2005-2008 vintage, original credit score 680-739, and original LTV of $85 < \text{LTV} \leq 90$, and
 - b. \$40,000,000 of *performing primary adjusted RIF* characterized as *HARP*, *HARP* credit score of 680-699 and *HARP* LTV of $\text{LTV} > 105$.
2. Step (I.ii), multiply the *performing primary adjusted RIF* amounts above by the *risk-based required asset amount* factors in the applicable table cells. For Step (I.iii), sum the products:
$$(\$80,000,000 \times 6.74\%) + (\$40,000,000 \times 7.79\%) = \$8,508,000$$
3. Step (I.iv):
 - a. $\$8,508,000 / (\$80,000,000 + \$40,000,000) = 7.09\%$
 - b. 7.09% is greater than 5.6%; therefore, the *risk-based required asset amount* for *performing primary mortgage guaranty insurance* is \$8,508,000

vi. Example 2:

1. For Step (I.i), an MI company has:
 - a. \$50,000,000 of *performing primary adjusted RIF* categorized as non-*HARP*, 2009 – June 2012 vintage, original credit score of 740-759 and original LTV of $85 < \text{LTV} \leq 90$
 - b. Assume no insured loans meet the criteria specified in the Table 5 header.
2. Step (I.ii) multiply the *performing primary adjusted RIF* amount above by the *risk-based required asset amount* factor in the applicable table cell.
$$(\$50,000,000 \times 2.76\%) = \$1,380,000$$
3. Step (I.iv):
 - a. $\$1,380,000 / \$50,000,000 = 2.76\%$
 - b. 2.76% is less than 5.6%, therefore the *risk-based required asset amount* for *performing primary mortgage guaranty insurance* is $(\$50,000,000 \times 5.6\%) = \$2,800,000$

vii. Example 3:

1. For Step (I.i), an MI company has:
 - a. \$90,000,000 of *performing primary adjusted RIF* characterized as 2009 – June 2012 vintage, original credit score 740-759, and original LTV of $90 < \text{LTV} \leq 95$. All loans have the following risk characteristics: a) Cash out refinance, and b) Original maturity term less than 20 years.
 - b. \$75,000,000 of *performing primary adjusted RIF* characterized as *HARP*, *HARP* credit score of 620-679 and *HARP* LTV > 105 .

2. Step (I.ii), multiply the *performing primary adjusted RIF* amounts above by the *risk-based required asset amount* factors in the applicable table cells. For Step (I.iii), sum the products:

$$(\$90,000,000 \times 4.98\% \times 1.50 \times 0.50) + (\$75,000,000 \times 11.61\%) = \$12,069,000$$

3. Step (I.iv):
 - a. $\$12,069,000 / (\$90,000,000 + \$75,000,000) = 7.31\%$
 - b. 7.31% is greater than 5.6%; therefore, the risk-based required asset amount for *performing primary mortgage guaranty insurance* is \$12,069,000

viii. Example 4:

1. For Step (I.i), an MI company has:
 - a. \$100,000,000 of *performing primary adjusted RIF* characterized as Post June 2012 vintage, original credit score 700-719, original LTV of $90 < \text{LTV} \leq 95$, and all loans aged less than 25 months. All loans are classified as cash out refinance.
 - b. \$50,000,000 of *performing primary adjusted RIF* characterized as Post June 2012 vintage, original credit score 740-759, original LTV of $90 < \text{LTV} \leq 95$, and all loans aged 37-48 months.
 - c. 75,000,000 of *performing primary adjusted RIF* characterized as Post June 2012 vintage, original credit score 720-739, original LTV of $90 < \text{LTV} \leq 95$, and all loans aged 49-60 months. All loans were investor properties at origination.
2. Step (I.ii), multiply the *performing primary adjusted RIF* amounts above by the *risk-based required asset amount* factors in the applicable table cells. For Step (I.iii), sum the products:

$$(\$100,000,000 \times 10.50\% \times 1.50) + (\$50,000,000 \times 6.91\% \times 81\%) + (75,000,000 \times 8.95\% \times 78\% \times 1.75) = \$27,711,113$$

3. Step (I.iv):
 - a. $\$27,711,113 / (\$100,000,000 + \$50,000,000 + 75,000,000) = 12.32\%$
 - b. 12.32% is greater than 5.6%; therefore, the risk-based required asset amount for *performing primary mortgage guaranty insurance* is \$27,711,113.

II. Calculating the Risk-Based Required Asset Amount for Non-performing Primary Mortgage Guaranty Insurance:

The *risk-based required asset amount* for *non-performing primary mortgage guaranty insurance* is calculated separately and the applicable *risk-based required asset amount* factors are determined based on the delinquency status of the loan as defined in Table 8: 1) 2 – 3 missed monthly payments, 2) 4 – 5 missed monthly payments, 3) 6 – 11 missed monthly payments, 4) ≥ 12 missed monthly payments and 5) pending claim. The *risk-based required asset amount* factors for *non-performing primary mortgage guaranty insurance* are not segmented by vintage, LTV, credit score and other risk dimensions.

Calculation Steps:

- i. Apportion the *non-performing primary adjusted RIF* across the categories in Table 8.
- ii. Multiply the values calculated in Step (II.i) by the applicable factors in Table 8. Aggregate the results.
- iii. Example 5:
 1. For Step (II.i), an MI company has:
 - a. \$20,000,000 of *non-performing primary adjusted RIF* classified as 6 – 11 missed monthly payments.
 - b. \$4,000,000 of *non-performing primary adjusted RIF* classified as pending claims
 2. Step (II. ii) multiply the *non-performing primary adjusted RIF* amounts above by the *risk-based required asset amount* factors specified in Table 8, and sum the products:
$$(\$20,000,000 \times 78\%) + (\$4,000,000 \times 106\%) = \$19,840,000$$
; this is the *risk-based required asset amount* for *non-performing primary mortgage guaranty insurance*.

III. Calculating the Risk-Based Required Asset Amount for Performing and Non-Performing Loans Covered by Pool Insurance Policies

The *risk-based required asset amount* for pool insurance policies is calculated for each pool, and then aggregated across all pool insurance policies as follows:

Calculation Steps:

- i. Determine the *performing loan-level pool insurance RIF* associated with the pool insurance policy by multiplying the initial insured principal balance for each performing loan by the lesser of a) 50% or b) the applicable loan-level coverage percentage defined by the pool insurance policy. If there is no loan-level coverage percentage defined in the pool insurance policy, multiply the initial insured principal balance by 50%.
- ii. Determine the *non-performing loan-level pool insurance RIF* associated with the pool insurance policy by multiplying the initial insured principal balance for each non-performing loan by the lesser of a) 50% or b) the applicable loan-level coverage percentage defined by the pool insurance policy. If there is no loan-level coverage percentage defined in the pool insurance policy, multiply the initial insured principal balance by 50%.
- iii. For each pool insurance policy:
 1. Calculate the performing *risk-based required asset amount*:
 - a. For each performing loan, determine the applicable *risk-based required asset amount* factor:
 - i. Find the applicable factor found in Tables 1, 2, 3, 4 or 7 above, based upon the Original Credit Score, Original LTV, Vintage, and Loan

Purpose of the insured loan; however, for loans refinanced through the *HARP* program, use the LTV ratio and credit score at the time of the refinance.

- ii. For loans that a) meet the criteria specified in the header for Table 5, and b) have one or more of the risk features specified in Table 5: multiply the factor found in Step (III.iii.1.a.i) above by each of the applicable multipliers specified in Table 5.
 - iii. For loans that meet the criteria in the header for Table 6, multiply the result of Step (III.iii.1.a.ii) by the applicable seasoning weight.
 - iv. The *risk-based required asset amount* factor is the lesser of the product derived in Step (III.iii.1.a.iii) or 100%.
- b. Multiply the *performing loan-level pool insurance RIF* for each insured loan by the applicable *risk-based required asset amount* factor found in Step (III.iii.1.a.iv).
 - c. Sum the products derived in Step (III.iii.1.b).
2. Calculate the non-performing *risk-based required asset amount*:
 - a. Apportion the *non-performing loan-level pool insurance RIF* as defined in Step (III.i) across the cells of Table 8.
 - b. Multiply the apportioned amount of *non-performing loan-level pool insurance RIF* associated with each cell of Table 8 by the applicable *risk-based required asset amount* factor in the applicable cell.
 - c. Sum the results for all the cells.
 3. Sum the amounts in Step (III.iii.1.c) and Step (III.iii.2.c).
 4. If the pool insurance policy features a deductible, subtract the remaining pool insurance policy deductible amount from the amount calculated in Step (III.iii.3). Take the greater of this result or zero.
 5. The *risk-based required asset amount* for each pool insurance policy is the lesser of the amount calculated in Step (III.iii.4) or the *net remaining stop loss* for the pool insurance policy.
- iv. Aggregate the *risk-based required asset amounts* calculated for each pool insurance policy in Step (III.iii.5) across all pool insurance policies to derive the total *risk-based required asset amount* for pool insurance policies.
 - v. Example 6:
 1. For a single pool insurance policy, an MI company has:
 - a. \$200,000,000 of initial insured principal balance with no loan-level coverage percentage for *performing loan-level pool insurance* characterized as 2005-

- 2008 vintage, original credit score 740-779, and original LTV of $85 < \text{LTV} \leq 90$, and
- b. \$120,000,000 of initial insured principal balance with no loan-level coverage percentage for *performing loan-level pool insurance* characterized as 2005-2008 vintage, original credit score of 680-739, and original LTV of $90 < \text{LTV} \leq 95$.
 - c. \$10,000,000 of initial insured principal balance with no loan-level coverage percentage for *non-performing loan-level pool insurance* for loans that have 2 – 3 missed monthly payments, and \$6,000,000 for loans having more than 12 missed monthly payments, and \$3,000,000 for pending claims.
 - d. The pool insurance policy has a *net remaining stop loss* of \$24,000,000.
 - e. The pool insurance policy has a remaining deductible amount of \$5,000,000.
2. Calculate the loan-level pool insurance *RIF* by multiplying the initial insured principal balance amounts as defined in Steps (III.i and III.ii). Multiply the *performing loan-level pool insurance RIF* by the *risk-based required asset amount* factor determined in Step (III.iii.1.a.iv) and multiply the *non-performing loan-level pool insurance RIF* by the applicable factor in Table 8, and sum the results:

$$(\$200,000,000 \times 50\% \times 3.69\%) + (\$120,000,000 \times 50\% \times 8.22\%) + (\$10,000,000 \times 50\% \times 55\%) + (\$6,000,000 \times 50\% \times 85\%) + (\$3,000,000 \times 50\% \times 106\%) = \$15,512,000$$

3. Subtract the remaining deductible amount:
- $$\$15,512,000 - \$5,000,000 = \$10,512,000$$
4. Determine the *risk-based required asset amount* for the pool insurance policy by the following:
- a) The *risk-based required asset amount* for the pool insurance policy is the lesser of a) \$10,512,000 or b) \$24,000,000.
 - b) Therefore, the *risk-based required asset amount* for this pool insurance policy is \$10,512,000.
5. Aggregate the *risk-based required asset amounts* calculated for each pool insurance policy to derive the total *risk-based required asset amount* for pool insurance policies.

IV. Total Risk-Based Required Asset Amount Calculation

The total *risk-based required asset amount* is the sum of the *risk-based required asset amounts* for the following:

- 1) *Performing primary mortgage guaranty insurance*,
- 2) *Non-performing primary mortgage guaranty insurance*, and
- 3) Pool insurance policies.

Operational Performance Scorecard

PMIERS Exhibit B - Operational Performance Scorecard and Data Template

Monthly Claims Activity Report

PMIERS Exhibit C – Monthly Claims Activity Report

Quarterly Portfolio and Financial Supplement

PMIERS Exhibit D – Quarterly Portfolio and Financial Supplement

Annual Certificate of Compliance

PMIERs Exhibit E – Annual Certificate of Compliance

Quarterly Portfolio Loan Level Dataset

PMIERS Exhibit F – Quarterly Portfolio Loan Level Dataset

Adjusted RIF

Direct RIF after adjusting for risk ceded to or assumed from other parties pursuant to Exhibit A.

Affiliate or Affiliated

A relationship between two entities, the first of which, referred to in this section as “Company A,” is a person (including any natural person or corporation, business trust, general or limited partnership, limited liability company, limited liability partnership, or other similar organization or legal entity), and the second of which, referred to in this section as “Company B,” is a corporation, business trust, general or limited partnership, limited liability company, limited liability partnership, or other similar organization or legal entity:

- 1) Where Company A directly or indirectly owns or controls 10% or more of the voting shares or voting rights of Company B, through stock ownership or in any other manner, or
 - 2) Where Company A is a *mortgage enterprise* and directly or indirectly owns or controls, either jointly or severally with other *mortgage enterprises*, 10% or more of the voting shares or voting rights of Company B, through stock ownership or in any other manner, or
 - 3) Where Company A controls in any manner the election of a majority of the directors or trustees or members of the governing body of Company B, or
 - 4) Where Company A is a *mortgage enterprise* and, either jointly or severally with other *mortgage enterprises*, controls in any manner the election of a majority of the directors or trustees or members of the governing body of Company B, or
 - 5) Where either Company A or Company B has a majority of directors or trustees or members of the governing body who are also directors or trustees or members of the other entity’s governing body, or
 - 6) Where Company A has the same ultimate parent company as Company B.
-

Applicable Law

Any and all federal, state and local laws and regulations that govern or apply to an *approved insurer* and the conduct of its business operations, including any and all applicable laws and regulations of its state of domicile, each state in which it does business, and each state which asserts extraterritorial jurisdiction over the business operations of the *approved insurer*, as all such and other *applicable laws* may be amended and supplemented from time to time. By way of illustration and not limitation, *applicable law* includes such laws as may govern or apply to an *approved insurer* that pertain to fair housing, fair lending, equal credit opportunity, truth in lending, wrongful discrimination, appraisals, real estate settlement procedures, borrower privacy, data security, escrow account administration, mortgage insurance cancellation, debt collection, credit reporting, electronic signatures or transactions, predatory lending, terrorist activity, the ability to repay, or the enforcement of any of the terms of a mortgage loan. The term also includes any other *applicable laws* or regulations, compliance with which is required under the *PMIERS*.

Glossary

Approved Insurer A mortgage guaranty insurance company that has been approved by *Freddie Mac*, either under the *PMIERS* or *Freddie Mac's* prior mortgage insurance eligibility requirements, as qualified to guarantee or insure mortgages acquired by *Freddie Mac*, and which has not been *terminated*.

Automated Underwriting System *Fannie Mae's* Desktop Underwriter, *Freddie Mac's* Loan Prospector or other automated mortgage credit risk underwriting system including systems owned or developed by an *insured*.

Available Assets Assets that are readily available to pay claims, and include the most liquid investments of an *approved insurer* as defined in Section 703.

Available Assets Shortfall The amount by which *available assets* are less than *minimum required assets*.

Capital Support Agreement Any agreement that supports the *approved insurer's* capital position, including but not limited to a guarantee by a parent or third-party, or net worth maintenance agreement.

Ceding Commission A commission paid to a ceding *approved insurer* by a *reinsurer* to reimburse the ceding *approved insurer* for policy acquisition and administrative costs.

Claim Perfection Date The date all information and documents required by the *approved insurer* to file a claim under the terms of its applicable *master policy* have been received by the *approved insurer*.

Contingency Reserve A reserve for unexpected claim or loss contingencies that are in excess of required statutory case-based reserves and incurred but not reported loss reserves for a mortgage guaranty insurer generally equal to 50 percent of premiums earned. Such reserve must be maintained for a period of 10 years, unless permitted to be released earlier as a result of losses exceeding a defined threshold. (See *Model Act*, Section 16 (c), Reserves)

Convention Statement The *NAIC's* statutory financial report that insurance companies file on a quarterly and annual basis with state insurance regulators.

Delegated Underwriter A mortgage enterprise designated by the *approved insurer* to perform *delegated underwriting*.

Glossary

Delegated Underwriting Delegation of the insurance underwriting decision by the *approved insurer* to a *mortgage enterprise* for loans originated by that enterprise.

Direct RIF The dollar amount of *mortgage guaranty insurance* coverage currently in-force that the *approved insurer* has underwritten and for which the *approved insurer* is named as the obligated insurer or *reinsurer*, prior to any ceding or sharing of risk with any *reinsurer*.

Domestic State Insurance Regulator The Department of Insurance or Insurance Commissioner for the state in which the *approved insurer* is domiciled.

Excess of Loss A *reinsurance* arrangement whereby the *approved insurer* retains risk for a pool of loans up to a specified aggregate dollar amount (expressed as a percentage of the pool balance), and the *reinsurer* assumes risk for the insured pool of loans once aggregate losses exceed the specified dollar amount. Under an *excess of loss* arrangement, the aggregate pool risk for the qualified *reinsurer* may also be limited once losses reach a specified level, after which risk for the pool reverts back to the *approved insurer*.

Exclusive Affiliated Reinsurer An *affiliate* of an *approved insurer* that exclusively provides *reinsurance* for the benefit of the *approved insurer*. An *exclusive affiliated reinsurer* must be a strongly capitalized *affiliate*, as determined by *Freddie Mac*.

Fannie Mae The Federal National Mortgage Association.

Flagship The insurer in any family of insurance companies that is the primary writer of *mortgage guaranty insurance* on mortgages securing one- to four-unit residential properties in the United States and its territories.

Freddie Mac The Federal Home Loan Mortgage Corporation.

Home Affordable Refinance Program (HARP) A mortgage refinance program offered by *Fannie Mae* and *Freddie Mac* that provides a mortgage refinance option designed to help borrowers who may be ineligible for a traditional refinance because their home has little or no equity.

Immediate or Immediately Within two (2) business days.

Glossary

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| Insured | The <i>mortgage guaranty insurance</i> policyholder or the person/entity so defined by the applicable <i>master policy</i> . |
| Lender Captive Reinsurance | <i>Reinsurance</i> that is written by an <i>affiliate</i> of a <i>mortgage enterprise</i> that covers mortgages insured by the <i>approved insurer</i> . |
| Lender Captive Reinsurer | An <i>affiliate</i> of a <i>mortgage enterprise</i> that reinsures mortgages insured by an <i>approved insurer</i> that are originated, purchased, sold or serviced by the <i>mortgage enterprise</i> . |
| Master Policy | The form of <i>mortgage guaranty insurance</i> policy and related endorsements and other forms that have been approved by <i>Freddie Mac</i> for use with loans intended for sale to <i>Freddie Mac</i> and issued by an <i>approved insurer</i> to its customers. |
| Material | <p>Any change, event, or information where there is a substantial likelihood that such change, event or information either individually or together with other changes, events, or information is relevant to <i>Freddie Mac</i>, including without limitation:</p> <ul style="list-style-type: none">• <i>Freddie Mac</i>'s determination of the financial condition, operational condition, or claims-paying ability of the <i>approved insurer</i>;• the value of the <i>mortgage guaranty insurance</i> provided to <i>Freddie Mac</i> by the <i>approved insurer</i>;• the continued ability of the <i>approved insurer</i> to write new <i>mortgage guaranty insurance</i> in jurisdictions where it is licensed to do so; or• where in some other manner negatively impacts <i>Freddie Mac</i>. <p>The SEC's regulations that govern securities registration and disclosure may be used as a guideline to evaluate whether such change, event, or information may material, and thus, relevant to <i>Freddie Mac</i>.</p> |
| Minimum Required Assets | The greater of \$400 million or the total <i>risk-based required asset amount</i> as determined in Exhibit A. |
| Model Act | The Mortgage Guaranty Insurance Model Act published by the <i>NAIC</i> in July 2000. |
| Mortgage Enterprise | A mortgage broker, lender, originator, seller or servicer of 1-4 unit residential mortgages or any entity to which a <i>master policy</i> has been issued. The term does not include <i>Fannie Mae</i> and <i>Freddie Mac</i> . |
| Mortgage Guaranty Insurance | The primary or pool-level insurance or guarantee against financial loss by reason of nonpayment of principal, interest and other sums agreed to be paid under the terms of a note, bond or other evidence of the indebtedness, and which is secured by a mortgage, deed |

Glossary

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| Mortgage Guaranty Insurance (continued) | of trust or other instrument constituting an enforceable lien or its equivalent against real property on which is erected an improvement designed for occupancy as a 1-4 unit residential structure (including any manufactured home that is legally classified as real estate). |
| Mortgage Payment Record | A historical record of payments made by a borrower on a mortgage loan. Such record would typically include the amount of each payment, the payment due dates, and the dates on which payments were received. |
| NAIC | The National Association of Insurance Commissioners. |
| Net Remaining Stop Loss | For pool insurance policies, the initial aggregate stop loss amount for the policy, net of the following: 1) any applicable policy deductible and 2) all benefits paid to date. |
| Newly-Approved Insurer | An <i>approved insurer</i> that has been an <i>approved insurer</i> for less than three (3) years or an <i>approved insurer</i> that, at <i>Freddie Mac</i> 's discretion, is designated as a <i>newly-approved insurer</i> due to a <i>material</i> change in <i>approved insurer</i> 's ownership, control or organization. |
| Non-Exclusive Affiliated Reinsurer | A <i>reinsurance</i> entity <i>affiliated</i> with an <i>approved insurer</i> that provides <i>reinsurance</i> to insurers other than, or in addition to, the <i>approved insurer</i> . |
| Non-performing Loan-Level Pool Insurance RIF | The <i>RIF</i> associated with an individual loan that has more than one missed monthly payment, covered by the <i>approved insurer</i> under a pool insurance policy. Generally this is calculated as the initial insured principal balance multiplied by the loan-level coverage percentage defined by the pool insurance policy, if applicable. If there is no loan-level coverage percentage defined in the pool insurance policy, or if the loan-level coverage percentage defined by the pool insurance policy exceeds 50%, multiply the initial insured principal balance by 50%. |
| Non-performing Primary Mortgage Guaranty Insurance | Primary <i>mortgage guaranty insurance</i> covering loans that have more than one missed monthly payment. |
| Officer | An employee of the <i>approved insurer</i> that has been designated a corporate officer by its board of directors. |

Glossary

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| Operational Performance Scorecard | A quarterly scorecard used by <i>Freddie Mac</i> to monitor the operational performance of an <i>approved insurer</i> . See Exhibit B. |
| Pending Claim | A claim for <i>mortgage guaranty insurance</i> benefits that has been filed with an <i>approved insurer</i> but has not been paid. |
| Performing Loan-Level Pool Insurance RIF | The <i>RIF</i> associated with an individual loan that is current or not more than one missed monthly payment, covered by the <i>approved insurer</i> under a pool insurance policy. Generally this is calculated as the initial insured principal balance multiplied by the loan-level coverage percentage defined by the pool insurance policy, if applicable. If there is no loan-level coverage percentage defined in the pool insurance policy, or if the loan-level coverage percentage defined by the pool insurance policy exceeds 50%, multiply the initial insured principal balance by 50%. |
| Performing Primary Adjusted RIF | <i>Adjusted RIF</i> , associated with loans covered by the <i>approved insurer</i> under a primary <i>mortgage guaranty insurance</i> policy that are, current or not more than one missed monthly payment. |
| Performing Primary Mortgage Guaranty Insurance | Primary <i>mortgage guaranty insurance</i> covering loans that are current or not more than one missed monthly payment. |
| Private Mortgage Insurer Eligibility Requirements or PMIERS | <i>Freddie Mac's</i> published requirements along with all other conditions required by <i>Freddie Mac</i> related to the approval and continued eligibility of a private <i>mortgage guaranty insurance</i> provider for <i>approved insurer</i> status. |
| Quota Share | A <i>reinsurance</i> arrangement whereby loan-level risk in the form of <i>mortgage guaranty insurance</i> claim payments and premiums are shared with a <i>reinsurer</i> on a proportional basis. |
| Rating Agency | A nationally recognized statistical rating organization. |
| Reinsurance | A transaction whereby the <i>reinsurer</i> in consideration of premium paid, agrees to indemnify the <i>approved insurer</i> against all or part of the loss which the <i>approved insurer</i> may sustain under the <i>mortgage guaranty insurance</i> policy or policies which it has issued. |

Glossary

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| Reinsurer | A provider of <i>reinsurance</i> is an insurer that assumes all or part of the <i>mortgage guaranty insurance</i> or <i>reinsurance</i> risk written by an <i>approved insurer</i> . |
| Risk-Based Required Asset Amount | The minimum amount of <i>available assets</i> that an <i>approved insurer</i> must have, based on a percentage of its <i>RIF</i> weighted by certain risk attributes. Details of the calculation of <i>risk-based required asset amount</i> are provided in Exhibit A. |
| Risk-in-Force (RIF) | The <i>approved insurer's</i> risk exposure used to calculate the <i>risk-based required asset amount</i> . For primary <i>mortgage guaranty insurance</i> , the sum of each insured mortgage loan's current principal balance multiplied by the applicable coverage percentage. For pool insurance, the lesser of a) the sum of the initial insured principal balance for each mortgage loan multiplied by the applicable loan-level coverage percentage defined by the pool insurance policy (if there is no loan-level coverage percentage defined in the pool insurance policy, or if the loan-level coverage percentage defined by the pool insurance policy exceeds 50%, multiply the initial insured principal balance by 50%), less the remaining deductible amount for the pool insurance policy, or b) the <i>net remaining stop loss</i> amount. |
| Risk Sharing Transaction | A transaction, agreement, program or arrangement involving the ceding, sharing, assuming, reimbursing or rebating, in whole or in part, of risks, liabilities, premiums, payments of any kind, including payments made in accordance with the terms of any <i>mortgage guaranty insurance</i> policy, or any other transfer of value, including without limitation, a <i>reinsurance</i> agreement, with any person including an <i>insured</i> . Excluded from this definition is the issuance of any new <i>mortgage guaranty insurance</i> policy. |
| Run-off | A status in which an <i>approved insurer</i> no longer issues new <i>mortgage guaranty insurance</i> policies but continues to be obligated under existing <i>mortgage guaranty insurance</i> policies. |
| Senior Management | The senior executives of the <i>approved insurer</i> responsible for managing the business that typically include the chief executive officer, president, chief operating officer, chief financial officer and chief risk officer. |
| Suspend, Suspended, Suspension | Status when <i>Freddie Mac</i> will not accept deliveries of mortgage loans insured by an <i>approved insurer</i> , but the insurer has not been <i>terminated</i> . |
| Terminate, Terminated, Termination | Status in which a formerly <i>approved insurer</i> is not permitted to insure any new mortgage loans acquired by <i>Freddie Mac</i> or any existing mortgage loans for which <i>Freddie Mac</i> is the beneficiary. |

Glossary

**Third-Party
Risk Analytics
Firm**

A firm, acceptable to *Freddie Mac*, engaged to conduct risk analytics of an *approved insurer's* book of business, including analyses such as projecting losses and claims paying ability.

**Unearned
Premium
Reserves**

An *approved insurer's* liability for its unearned premiums.
