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THE FIRST 100 DAYS: WHAT'S NEXT?

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Outline

- Introduction / Overview
- Macro Policy
- Housing Policy
- Political Outlook
- Questions

Overview: The First 100 Days, Where are We?

Donald Trump is changing how Washington operates:

- Twitter, not surrogates, communicate for the President
- “Deals” are how policy will move
- Executive Orders provide the ability to deliver on campaign promises:
 - 1) Freeze Memo – January 20
 - 2) Regulatory Reduction Order – January 30
 - 3) Principles Order – February 3
 - 4) Regulatory Reform Order – February 24

Congress has considerable work in front of it:

- Reconciliation is the key “vehicle” to enact major policy items
 - Average time to complete reconciliation process since 1980: 5 months
- Nominations: 4,000 positions to be filled
 - “Nuclear” Senate: all nominations, including Supreme Court, now only require 51 votes

Macro Policy: Budget, Health Care, Tax, Infrastructure Dominate the Agenda, not Housing

Budget: President Trump enters office facing the highest debt-to-GDP ratio since WWII:

- Continuing resolution will run through April 28
- Debt limit must be addressed in Q3

Healthcare: do Republicans try again?

Taxes: last major tax reform was 1986:

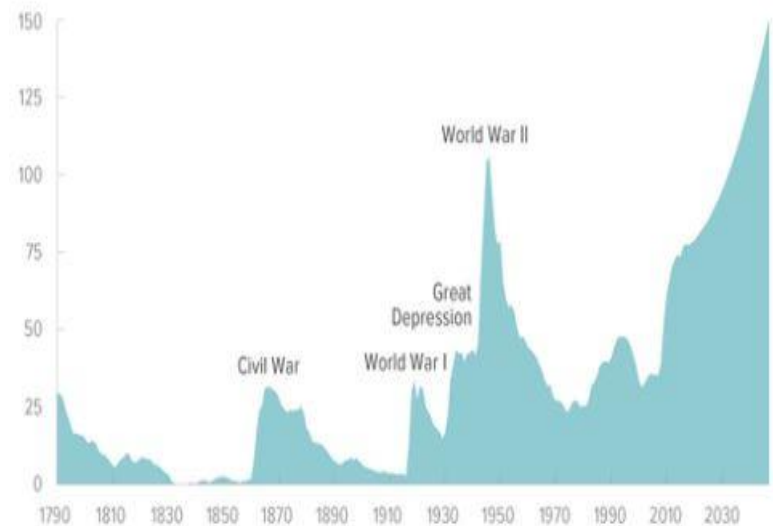
- House Republican plan calls for a border adjustability tax to offset a lower corporate rate and a larger standard deduction and fewer itemized deductions; fate in Senate unclear

Infrastructure Spending: design still evolving:

- Part of tax reform or repatriation? Deficit funded? Tax credit based?

Federal Debt Held By the Public

Percentage of GDP

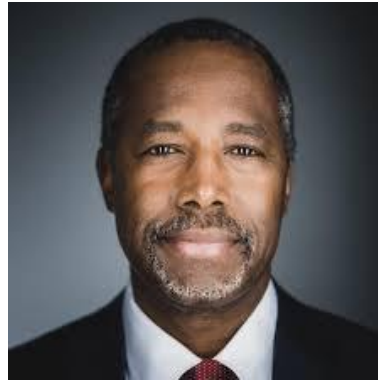


Source: Congressional Budget Office

Overview: Key Trump Appointments with Oversight of Housing and Regulatory Issues



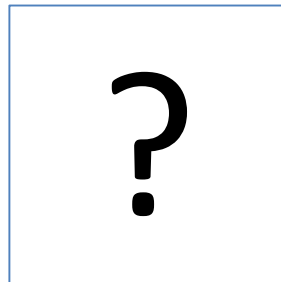
Steve Mnuchin
Treasury



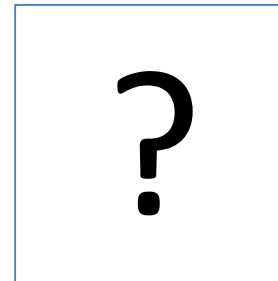
Ben Carson
HUD



Gary Cohn
NEC



FHA
Commissioner



Ginnie Mae
President

Housing and Regulatory Policy: Top Issues and Challenges for Senate Banking and House Financial Services Committees

Top policy issues before the Committees:

1. Re-authorization of National Flood Insurance Program
2. Regulatory Relief
3. Housing Finance Reform

Top challenges:

1. 6: new members of Senate Banking
2. 14: new members of House Financial Services
3. Almost half of current U.S. Senate was elected since the financial crisis
4. Over half of the U.S. House of Representatives elected since the financial crisis

Housing Policy: Regulatory Relief Agenda

114TH CONGRESS
2^D SESSION

H. R. 5983

[Report No. 114–883, Part I]

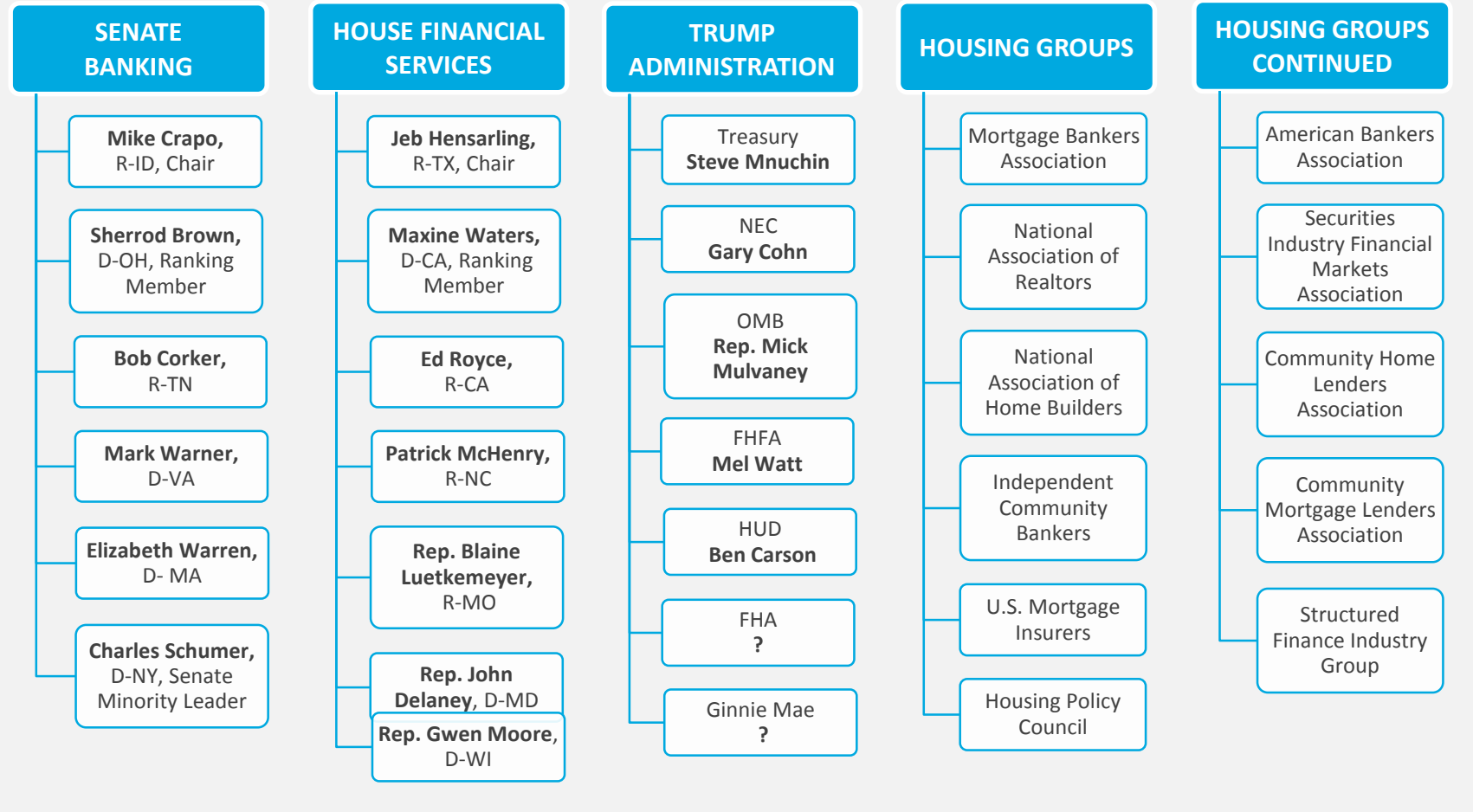
To create hope and opportunity for consumers, investors, and entrepreneurs by ending bailouts and Too Big to Fail, holding Washington and Wall Street accountable, eliminating red tape to increase access to capital and credit, and repealing the provisions of the Dodd-Frank Act that make America less prosperous, less stable, and less free, and for other purposes.

- Create Hope and Opportunity for Consumers, Investors and Entrepreneurs (CHOICE) Act Key Provisions:
 - CFPB: retain single director (?) who can be fired; place commission on budget
 - Subject financial regulators to the REINS Act and cost-benefit analysis requirements
 - QM: address concerns about the credit box
 - Dodd-Frank relief for banks that hold additional capital

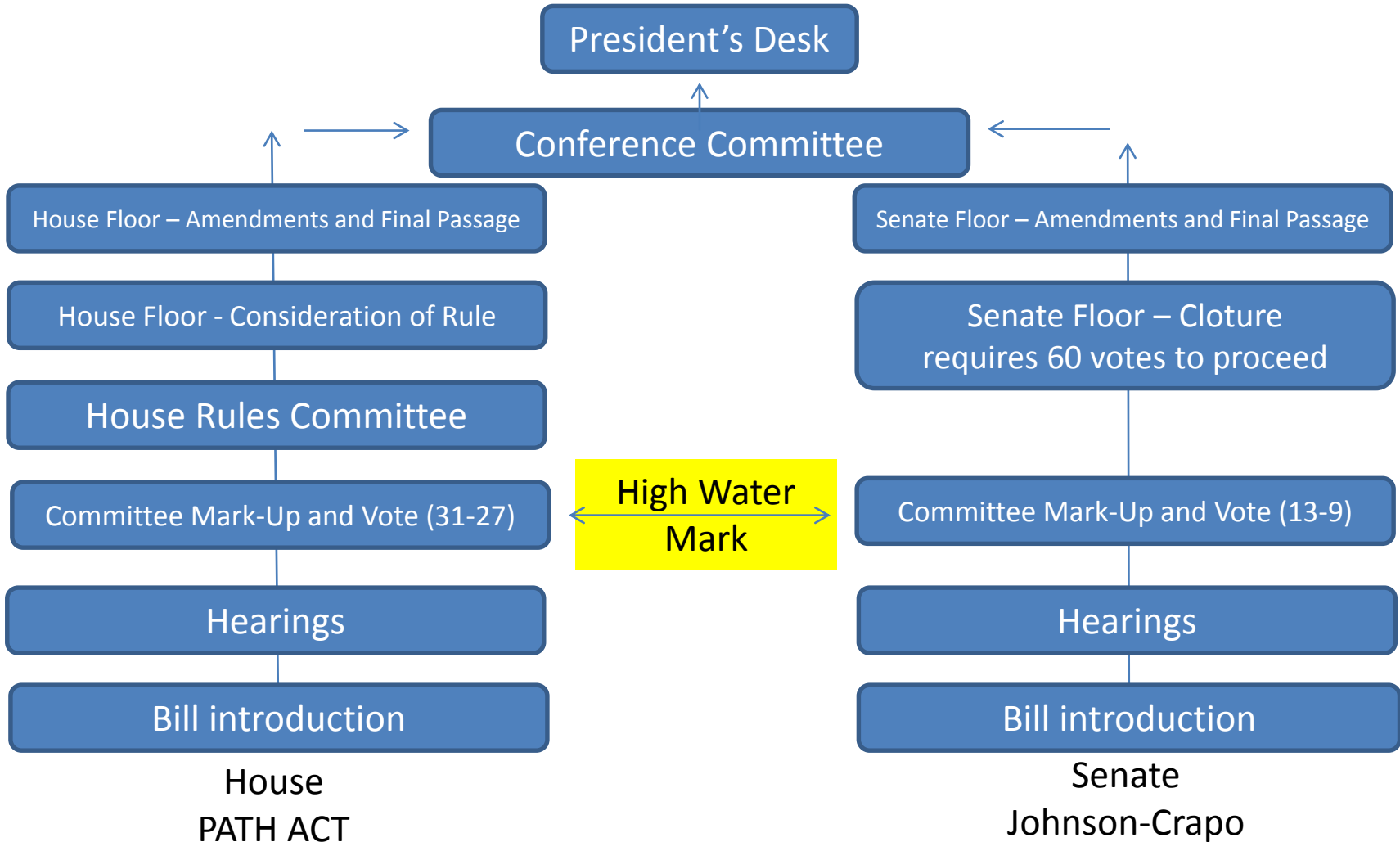
Housing Policy: Universe of Reform Options

Reform Option	Proposal	Government Guarantee?
Corker-Warner / Johnson-Crapo	Eliminate GSEs; turn IP and systems over to new regulator, Federal Mortgage Insurance Corporation (FMIC) and small lender mutuals. FMIC regulates entire system and enforces fair housing, affordable housing, and duty to serve. Private capital must take 10 percent of first loss.	Yes (explicit on MBS)
PATH Act (Hensarling Bill)	Eliminate GSEs; create standards for "conforming" private label securities. Make FHA a standalone agency with higher capital standards.	Only through Ginnie Mae; no more conforming market.
Ginnie Mae Model	Leverage Ginnie Mae infrastructure to allow for private credit enhancement to in addition to FHA / VA / RHS.	Yes (explicit via Ginnie Mae)
Utility Model / MBA White Paper	GSEs converted to utilities, but charter is opened for others to come in as utilities. Utility will have a duty to serve requirement and affordable housing goals. Private capital will take on first loss.	Yes (explicit on MBS)
Government Corporation	GSEs are converted to a government corporation; corporation provides an explicit and catastrophic guarantee and regulatory oversight of system. Private capital will take on first loss.	Yes (explicit on MBS)

Key Players in Housing Reform Discussions



Housing Policy: Reform Bills Have Never Been Considered in Either the Full House or Senate



Housing Policy: FHFA Remains Central to Reform Initiatives

- As conservator of the GSEs, FHFA is the key catalyst for making changes to the operational, risk, and business elements of the Enterprises.
- Efforts effectively mimic reform and move forward in the absence of legislative progress.
- Annual Scorecard for the GSEs dictates priorities. High level priorities remain unchanged while lower-level projects are modified annually:

1

Maintain

40 percent
scorecard weight



- Post-crisis modification plan
- Servicing compensation
- Assess credit scoring models

2

Reduce

30 percent
scorecard weight



- Credit risk transfer
- PMIERS 2.0
- Wind-down retained portfolio

3

Build

30 percent
scorecard weight



- Common platform
- Single security
- Uniform closing disclosure dataset

Political Outlook: 2018 Senate Map Favors Republicans, Will Factor into Policy Decisions

23 Democrats, 8 Republicans, 2 Independents Up for Re-Election

	State	Senator	Senate Margin 2012	Trump 2016	Romney 2012
1	Indiana	Donnelly	49.9	56.9	54.3
2	Missouri	McCaskill	54.7	56.8	53.9
3	Montana	Tester	48.7	56.2	55.3
4	North Dakota	Heitkamp	50.5	63	58.7
5	West Virginia	Manchin	60.6	68.6	62.3
6	Florida	Nelson	55.2	49	46.1
7	Ohio	Brown	50.3	51.7	48.2
8	Michigan	Stabenow	58.8	47.5	44.8
9	Pennsylvania	Casey	53.6	48.6	46.8
10	Wisconsin	Baldwin	51.5	47.2	46.1

Source: Cook Political Report, Politico, Washington Post

Conclusion

- Trump Administration will continue to change how Washington operates.
- First 100 Days demonstrates that the policy process is hard by design; early agenda items on taxes and fiscal issues will continue to require significant time and effort by policymakers.
- Regulatory relief and GSE reform will continue to be issue of interest; when / how the two parties and chambers come to agreement remains to be seen.
- Don't expect major changes in mortgage industry in the immediate future; changes are likely to evolve slowly in the coming years.

Thank You and Questions

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