



CMG Mortgage Insurance Company
A Joint Venture between PMI Mortgage Insurance Co. and
CUNA Mutual Insurance Society

FEDERAL HOME LOAN BANK OF BOSTON

AUG 19, 2009, ACTION ON CMG MI-INSURED LOANS

FREQUENTLY ASKED QUESTIONS

Updated August 31, 2009

Q1. What action has the Federal Home Loan Bank of Boston (FHLB Boston) taken?

A1. On August 19, 2009, the FHLB Boston determined that it had reached its exposure limits on mortgage insurance written by CMG Mortgage Insurance Company (CMG MI) and would no longer accept loans insured by CMG MI for its MPF® (Mortgage Partnership Finance, or portfolio) program *only*.

This action will take effect October 19, 2009, and none of the loans currently in the pipeline for sale will be affected.

The FHLB Boston will continue to accept loans insured by CMG MI for the MPF Xtra™ (GSE) program.

Q2. Why did the FHLB Boston take this action?

A2. The FHLB Boston recognizes that CMG MI remains the highest-rated MI provider in the industry, despite the recent downgrade by Standard & Poor's (S&P). It also acknowledges that our loss and default ratios compare favorably to the rest of the industry.

However, the FHLB Boston's internal policy imposes limits on its portfolio exposure to an individual insurer, based upon the insurer's S&P rating and claims-paying resources.

Though the FHLB Boston recognizes CMG MI's creditworthiness, the recent S&P downgrade technically puts the FHLB Boston's current portfolio exposure outside policy limits.

S&P said in its most recent research that CMG MI's "capital adequacy ratio of 99.6% as of December 31, 2008, is above Standard and Poor's minimum threshold for an 'AA' financial strength rating."

Q3. Why has the FHLB Boston taken this action now?

A3. S&P adjusted CMG MI's rating to BBB+ in July. Subsequent to this adjustment, the FHLB Boston's exposure limit to CMG MI was cut in half, which resulted in the limit being exceeded.

Since this is an established internal guideline that the FHLB Boston must adhere to, it cannot accept new portfolio (MPF program) loans insured by CMG MI until its current exposure diminishes.

Q4. Does this apply to all loans that CMG MI insures for the Credit Unions that sell loans to the FHLB Boston?

A4. **No. This action will apply only to loans that the FHLB Boston intends to keep in portfolio** – loans submitted through the MPF program. For loans destined to be sold to the GSEs through the MPF Xtra program, a far greater percentage, the FHLB Boston will continue to accept our certificates.

Q5. Will the other Federal Home Loan Banks around the country also stop accepting CMG MI certs on loans submitted through the MPF program?

A5. At this point, we do not know. Exposure limits for the other FHLBs, as well as for state HFAs and aggregators, generally apply only to portfolio loans (and, as you may know, there are very few portfolio lenders today). For portfolio lenders, exposure limits are internal policies that differ from entity to entity.

Although many of the FHLBs share information and may have internal policies copied from each other, they tend to act independently. It is possible that there may be similar actions by other FHLBs in cases where they have MPF (portfolio) programs (Boston, New York, Pittsburgh, Des Moines and Topeka, at last count) and existing exposures to CMG MI. However, it is also likely that in these cases the FHLBs will continue to accept CMG MI certificates for mortgage loans submitted through the MPF Xtra program.

Again, this means only a small percentage of loans would be affected should these FHLBs take a similar action to the FHLB Boston.

More questions? Please contact your CMG MI Account Executive.