

**Testimony of  
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U.S. House Committee on Financial Services  
Subcommittee on Housing and Insurance**

**Hearing on  
“Diversifying Risk: The Benefits of Reinsurance and Credit Risk  
Transfers”**

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Chairman Flood, Ranking Member Cleaver, Members of the Subcommittee, thank you for the opportunity to testify today.

My name is Ben Walker. I am an Executive Managing Director at Aon Re, Inc., leading the Reinsurance Solutions Global Credit team. I appear today in that capacity and the views I express are based on my professional and industry experience. Aon is a global professional services firm that provides risk and human capital consulting and advisory services to clients in over 120 countries. Over the past decade and more, Aon Re has brought those same capabilities to several critical U.S. government programs, including Fannie Mae, Freddie Mac, the Export-Import Bank, FEMA and the U.S. International Development Finance Corporation. I have personally worked directly on reinsurance credit risk transfer (CRT) for the Government Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac since the creation of these programs. To date, Aon has placed more than 160 CRT transactions, transferring over \$55 billion in reinsurance limit to the global reinsurance markets.

While my particular expertise is with the CRT program at the GSEs, CRT can be applied to other government programs. Regardless of the agency, the fundamental question is simple: when things go wrong, who bears the financial cost? Today I'd like to highlight that CRT can be a valuable tool for the GSEs and for government agencies alike. The reinsurance market can take more risk from government balance sheets, materially reducing the extent to which taxpayers bear the burden when large-scale losses occur.

### **Risk Transfer and Credit Risk Transfer: A Working Definition**

It is worth distinguishing between two related but distinct concepts, because both are the subject of this hearing.

Risk transfer is when the financial consequences of a specified risk are shifted from one entity to another, commonly through insurance or reinsurance. The risk itself is most often tied to a physical event. A clear federal example is FEMA and the National Flood Insurance Program. FEMA purchases reinsurance each year to protect the NFIP against extreme flood losses. When Hurricane Harvey hit Texas in 2017 and triggered catastrophic flooding across the Houston area, FEMA recovered more than \$1 billion from its reinsurance panel.

CRT is narrower. Here, the risk being transferred is not physical damage; it is the risk that a borrower will fail to repay a loan. The underlying event is financial default, not a storm or a fire. In 2018, the Export-Import Bank purchased a \$1 billion credit reinsurance policy covering a portfolio of commercial aircraft financing transactions. The policy had nothing to do with whether a plane might crash; it covered the possibility that the airline borrowers might stop making payments. This was the largest public-private risk-sharing arrangement ever executed by a U.S. government credit agency. It was funded by fees the transactions had already generated, so it did not require additional appropriations or new taxpayer funding. Congress had directed EXIM to do this: the 2015 reauthorization included a mandate to engage in risk sharing with the private sector to reduce taxpayer liability. EXIM acted on it, and reinsurance was an effective solution.

The GSEs (Freddie Mac and Fannie Mae) offer the third and, for today's purposes, most important example. Following the Great Financial Crisis, the GSEs developed CRT programs starting in 2013. The goal was straightforward: move a share of the risk of another mortgage crisis away from the federal government and onto private capital that is compensated to bear it.

### **Why Credit Risk Transfer Matters**

CRT is neither niche nor untested. It is a core risk management tool the private sector has used for decades, and one the federal government has only somewhat recently begun to deploy.

The most direct benefit is taxpayer protection. When a recession triggers a wave of mortgage defaults, losses that would otherwise fall on a federal program are instead absorbed by private capital that was paid to take that position. But there are other benefits that deserve equal attention.

CRT distributes systemic risk. Federal programs like the GSEs and the NFIP accumulate enormous concentrations of exposure on a single balance sheet. CRT spreads those exposures across a

syndicated panel of global reinsurers and investors, which is precisely how the private sector manages large, concentrated risks.

There is also a market discipline and price transparency benefit. When private reinsurers and capital markets investors underwrite GSE mortgage risk, they are conducting their own independent review of whether the GSEs are managing credit risk prudently. Their pricing tells you something. If they think the risk is higher than the GSEs do, that shows up in what they charge. That feedback is valuable: it is a market-based check on government underwriting that regulation alone cannot replicate.

Beyond discipline and protection, CRT also functions as a form of capital. Combined with debt and equity, it is a way to meet capital requirements, and it is frequently cheaper than equity. That cost difference matters for two reasons: it can efficiently improve the GSEs' capital position regardless of their ownership structure, and it creates the potential to pass savings through to borrowers in the form of lower guarantee fees.

### **How GSE Credit Risk Transfer Works**

Prior to 2013, the GSEs retained substantially all of their mortgage credit risk. In the Great Financial Crisis, they sustained significant losses leading to their placement under government conservatorship. Their newly created regulator, FHFA, directed the GSEs to develop programs to share concentrated risk with a diversity of private capital. The GSE CRT programs developed under FHFA direction have operated with consistency since the first transactions in 2013 and have enjoyed consistent support by each successive administration.

The mechanics of a GSE CRT transaction are relatively straightforward. The GSEs define a pool of mortgages and then purchase an insurance policy, or issue a bond, that tracks how those loans perform over time.

The attachment point is the loss threshold below which the GSE retains all risk associated with a pool of mortgages. In other words, it's the deductible a GSE would pay in the event of a negative credit event. The detachment point is the cap, or the loss level beyond which the CRT coverage stops paying. Losses between those two points are what private capital absorbs. The coverage adjusts dynamically as loans pay off or refinance. If a borrower refinances, the mortgage is no longer a risk to the GSE, so the coverage steps down accordingly, keeping the protection roughly aligned with actual exposure over time. In exchange for absorbing losses in the covered layer, reinsurers or bond investors receive a monthly premium.

When the program launched in 2013, the structures were specifically designed to shift the risk of another financial crisis away from taxpayers, because at that point, the GSEs had essentially no capital of their own. Attachment points were set at roughly half a percent of the pool balance, which is approximately where losses start in a moderate recession. Detachment points were set at around three and a half to four percent, high enough to cover the actual losses experienced in the Great Financial Crisis. The design was intentional: protect the taxpayer in a severe stress, and partner with professional risk managers who would evaluate and monitor the GSEs' underwriting as a condition of their participation.

Reinsurance has been central to the CRT market since the beginning. In the early years, very few reinsurers had hands-on experience underwriting mortgage credit risk. The ones who got involved did serious work: they studied the GSEs' underwriting processes, built out their analytical capabilities, and stress-tested their credit models. That investment was not trivial, and it laid the foundation for a market that today comprises nearly 70 distinct reinsurance balance sheets that have written U.S. mortgage credit risk. Since the first deal in 2013, the reinsurance industry has written close to \$75 billion in CRT limit.

A few features make reinsurance distinctively valuable for these entities. Reinsurance pricing tends to fluctuate less than capital markets pricing through the cycle. When credit markets repriced sharply in 2020 and again in 2022 and 2023, reinsurance costs and availability were comparatively steadier. For a program trying to manage costs across many years of originations, that consistency

is valuable. GSEs that access both channels end up with a better blended cost than those relying on either one alone.

Forward coverage is a feature that, as of right now, is only available through reinsurance. Currently, capital markets CRT is placed six to twelve months after loans are originated. There is a structural lag built in: from the day a loan closes until the GSE can structure a CRT deal, the credit risk sits entirely on the federal balance sheet. The reinsurance market can provide forward coverage, with protection locked in before the loans are even made. Private Mortgage Insurers have seen the value of forward reinsurance protection and have leaned heavily into utilizing it. As of 2025, more than 80 percent of mortgage insurer CRT is executed on a forward basis through the reinsurance market. That is not an accident. It is because forward coverage provides a high degree of certainty in advance about both the cost and protection level of CRT.

New deal features are also consistently developed and tested in the reinsurance market first. Because reinsurers hold CRT risk to maturity, they tend to be more able to handle incremental developments in CRT structures. Capital markets investors that are focused on liquidity and consistency cannot always be as flexible on structural features.

### **The Potential for More Private Capital to Reduce Taxpayer Exposure**

The federal government is carrying an enormous amount of financial risk that many people, including some policymakers, may not fully appreciate because it is diffused throughout the entire government.

The GSEs guarantee over \$7 trillion in mortgage-backed securities. Under conservatorship, credit losses on those mortgages flow to Treasury, either directly through a Treasury draw or indirectly through reduced value of Treasury's holding of the GSEs. GAO's 2025 High-Risk Series states that Ginnie Mae and FHA portfolios have expanded to \$2.6 trillion and \$1.4 trillion respectively, leaving the federal government exposed to any downturn in the housing market after those entities' capital buffers are exhausted. GAO designated modernization of the financial regulatory system as a high-risk area in part because of that accumulated federal concentration in mortgage credit.

One recent GSE CRT dynamic is worth pointing out: since 2022, the GSEs have increased their CRT attachment points upward, retaining more of the first-loss risk themselves, to reduce near-term CRT expense and accumulate equity capital faster. The logic is clear, but there is a trade-off. Many of the recently purchased structures provide significantly less protection against a scenario that resembles the Great Financial Crisis than earlier CRT structures were designed to provide. The CRT program was originally built precisely to address that scenario. Finding attachment points that balance risk transfer and cost of capital would move the program closer to its original intent. Based on my experience, insurers and reinsurers are willing to sell protection at lower attachment points.

The NFIP has more than \$22.5 billion in debt to the Treasury, including \$2 billion borrowed as recently as February 2025. FEMA reported to Congress in its February 2024 semiannual debt report that the program cannot repay that debt over the next ten years under its current structure. A single Katrina-scale event, which models put at roughly a one-to-two percent annual probability, could add another \$21 billion in losses. Compounding this, GAO added "Improving the Delivery of Federal Disaster Assistance" as a new high-risk area in its 2025 update, citing the increasing cost and complexity of federal support as disasters become more frequent and intense. In 2024 alone, there were 27 disasters with at least \$1 billion in economic damages. The current approach to disaster recovery is fragmented across more than 30 federal entities with differing requirements and timelines that often do not share data with each other. That is the institutional backdrop against which FEMA is trying to manage flood insurance obligations.

EXIM remains a strong example, and it is instructive. Congress told EXIM in 2015 to engage in private sector risk sharing. In 2018, EXIM executed a \$1 billion credit reinsurance program covering its aircraft financing portfolio, working with a panel of ten reinsurers. That is an example of a model that worked: a Congressional mandate, private capital bearing the risk, no extra cost to the public.

The case for CRT does not depend on any particular view about the GSEs' or FEMA's long-term

structure. Whether the GSEs remain in conservatorship or are eventually released, the argument for CRT is similar: the federal government is exposed to concentrated mortgage default risk and a capital shortfall against ERCF requirements, and CRT is a very cost-effective tool available to manage risk and reduce the capital shortfall. CRT has generally been cheaper than equity would be for the GSEs in recent years, so every dollar of CRT coverage the GSEs place reduces the amount of more expensive equity capital they need to accumulate. The benefits are real whether the GSEs are majority government-owned or privately held.

### **Conclusion**

Private capital is available to support government risks. The market infrastructure exists. The tools have been tested across hundreds of transactions over more than a decade.

The programs discussed today (GSE CRT, NFIP reinsurance, and the EXIM risk-sharing model) are real-life, effective examples of private markets working with government agencies and entities under government conservatorship to manage and distribute risk.

I appreciate the Subcommittee's focus on the benefits of reinsurance and credit risk transfer and look forward to your questions.

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