

# Congress of the United States

## House of Representatives

Washington, DC 20515

September 11, 2020

Dr. Mark Calabria  
Director  
Federal Housing Finance Agency  
400 7th Street, S.W.  
Washington, D.C. 20024

Dear Director Calabria,

We write to you today regarding the re-proposed regulatory capital framework for Fannie Mae and Freddie Mac (the Enterprises). We appreciate the work you have done in constructing a proposed framework that would ensure the Enterprises can safely operate in a post-conservatorship environment. In addition, we support the objective of the rule to establish a risk-sensitive capital framework, increase the quantity and quality of capital, and further the safety and soundness of the Enterprises. As FHFA examines the comments submitted in relation to this rule and considers the appropriate measures for a final rule, however, we urge you to pay particularly close attention to the provisions of the rule impacting the Credit Risk Transfer (CRT) program at the Enterprises.

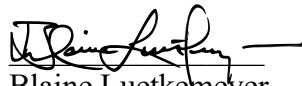
The Enterprises have successfully transferred more than \$130 billion of risk since the CRT program was created in 2013. The benefits of the program are noticeable as CRT not only provides a buffer for the American taxpayer, it also provides the Enterprises with counter-cyclical risk mitigation that reduces volatility and increases housing affordability. Furthermore, the practice of diversifying capital and spreading risk only serves to make the Enterprises more resilient should any future volatility befall the housing market. This effort is in addition to other risk transfer activities of the Enterprises, such as private mortgage insurance.

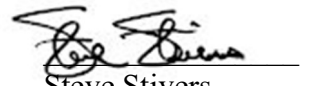
As FHFA looks to dramatically reconstruct the capital framework in order to adequately handle the risk held at the Enterprises, it is reasonable to assume the CRT marketplace will change as well. However, we are concerned that the re-proposed capital rule undermines the Enterprises' CRT program, and additional risk transfer activities, and could drastically diminish or potentially eliminate the existing CRT market.


The re-proposed rule contains multiple reductions to the capital credit given for CRT, including a 10 percent risk weight floor and an overall effectiveness adjustment. These provisions, along with others, could result in an overall reduction in CRT capital benefit by 50 percent. The re-proposed rule also contains a leverage ratio that does not include any credit for CRT, further diminishing the CRT marketplace. FHFA is appropriately using a risk-based approach to establish the capital requirements of the Enterprises. A similar approach, which more equitably considers the potential risks and benefits to the Enterprises, also should be used in determining the extent that CRT will be utilized in the new framework.


FHFA is tasked with ensuring the Enterprises operate in a safe and sound manner that facilitates efficient, competitive, and resilient national housing finance markets. While the re-proposed rule is a significant step in the right direction, ensuring a robust CRT marketplace is a critical aspect of fulfilling this mandate. We urge you ensure a robust, risk-based CRT marketplace in the re-proposed final regulatory capital framework of the Enterprises.

Sincerely,

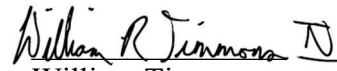
  
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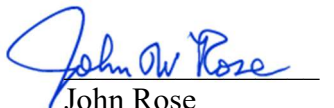
  
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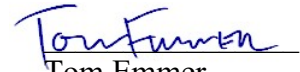
  
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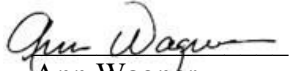
  
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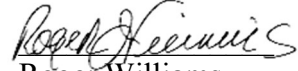
  
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