STRUCTURED FINANCE ASSOCIATION

May 12, 2023

Clinton Jones
General Counsel
Federal Housing Finance Agency
400 Seventh Street, SW., Washington, DC 20219

Attention: Comments/RIN 2590-AB27

Dear Mr. Jones,

We write in response to the Notice of Proposed Rulemaking on Enterprise Regulatory Capital Framework Amendment (RIN 2590-AB27). The Structured Finance Association has previously engaged on this topic, and we once again welcome the opportunity to share our views. Our response focuses on the proposed reduction of the risk-based capital charge on commingled securities from a 20 percent risk weight to 5 percent risk weight. In brief, we endorse this change, as it is directionally in line with SFA's previous advocacy on this point. In our 2021 response to the FHFA on the then-Proposed ERCF, we wrote:

> The increased fungibility and liquidity introduced through the development of the UMBS product in Conservatorship are at risk of being lost if more "friction" is introduced into the MBS and TBA markets via a capital charge imposed on one Enterprise for guaranteeing the credit of the other... A 20% risk weighting would be a substantial headwind for the UMBS initiative, and another step backwards to the pre-Conservatorship regime.[1]

We therefore view this proposed reduction as being directionally in line with SFA's views, and agree with the rationale stated in the proposed rule that the current 20 percent risk weight is excessive and could disincentivize the commingling necessary to support a liquid UMBS market. For similar reasons, we also agree with the proposed reduction in the credit conversion factor for guarantees on commingled securities from 100 percent to 50 percent.

While we do not have any specific counter-proposals or alternative suggestions pursuant to the questions posed in the Proposed Rule, we encourage FHFA to continue monitoring UMBS liquidity. Additionally, we are happy to share ongoing views from market participants, particularly UMBS investors, as it relates to the state of the UMBS.

In closing, we would like to add that we are also very supportive of the FHFA's demonstrated commitment to an ongoing, real-time review of the ERCF in light of emerging policy considerations, advances in technology and marketplace trends in housing finance. Many factors play into the fundamental question of the level of risk posed by the Enterprises' activities, and we look forward to continuing to engage on this topic with the FHFA.

[1] https://structuredfinance.org/wp-content/uploads/2020/08/SFA-Comment-to-RIN-2590-AA95_08312020.pdf

Sincerely,

Kristi Leo
President
Structured Finance Association