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Federal Housing Finance Agency
Office of Budget and Financial Management
400 7th St., SW
Washington, D.C. 20219

Re: 9/27/2017 Request for input on *FHFA's Strategic Plan: Fiscal Years 2018-2022* draft

Dear Ladies and Gentlemen:

I appreciate the opportunity to provide comments regarding FHFA's request for input on its *FHFA Strategic Plan: Fiscal Years 2018-2022* draft (the "Plan"). The FHFA and its regulated entities Fannie Mae and Freddie Mac (together the "Enterprises") and the Federal Home Loan Bank System ("FHLBS") together have made tremendous strides in improving support for the nation's housing finance market via reinforcement of operational controls and risk management capabilities, as well enhancing an already robust securitization funding foundation with new innovations, such as the Enterprise credit risk transfer programs.

In the Plan, the FHFA outlines both its Mission and Vision for the future:

- Mission
    - *"Ensure the regulated entities operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment."*
- Vision
    - *"A reliable, stable, and liquid housing finance system."*

The Mission and the Vision together set the evaluation standards for the efficacy of the Plan, as each strategic goal and its implementation should uphold and/or improve upon the key facets of the Mission/Vision: safe and sound operations that promote a reliable, stable, and liquid housing finance market. Overall, I believe the Plan is well thought out and provides an appropriate forward-looking outline of means and strategies for Mission/Vision adherence, and I offer the following comments and suggestions.

Comments on Strategic Goal 1: Ensure Safe and Sound Regulated Entities

- Summary – The framework laid forth for periodic and targeted risk-based assessment, risk identification, and timely remediation is appropriate and substantial. At this point in time, maintenance of the high operational risk management rigor instituted on-site at the regulated entities is now adequate and stable, and therefore should continue to be well-regarded by market participants and government officials. What is probably more important going forward is the activities focused on externalities via off-site analysis and monitoring of emerging risks.

The Plan identifies steps for continued safety and soundness regulation, including various periodic and targeted examination scheduling, in addition to a methodical rating/ranking of risk within the regulated entities, which is fundamental to a strong risk management function. The FHFA also outlines a continued remidiation methodology that addresses identified internal risk exposures with both documentation and corrective action. These goals, which include maintaining the improvements/implementations that have been put into place over the past several years, have borne positive results. As an example, the instances of defaults, losses, and buybacks in the Enterprise guaranty books of business has been greatly reduced, even while the guaranty portfolios have gotten much larger versus the pre-financial crisis period experience.

Given the robustness and comprehensive structure of the existing and proposed internal control plans for the regulated entities, the larger proportional risk to safety and soundness is now asymmetrically biased towards external influences on the regulated entities. These external influences include vendor or counterparty risks, standards and regulation changes, in addition to housing and financial market risks. Due to the nature of information and visibility, these external risks to safety and soundness can probably be monitored and assessed even more quickly than internal operational risks, but are inherently more complex to analyze given that external changes are generally out of the control purview of either the FHFA or the regulated entities. As such, the means and strategies of off-site analysis and monitoring of emerging market risks should garner increased focus in the future.

- Suggestions

    - Develop analytic monitoring frameworks for external influences including, but not limited to: various key interest rates, credit and housing indicators, macroecomic indicators, and legislative and rule-making alerts. These frameworks should include the development of “alert” thresholds that can provide early warnings on adverse external influences on the regulated entities.

    - Utilize internal and external subject-matter-experts to assist in the development and assessment of external risk factors, including the formulation of scenario analysis for a proactive approach to monitoring of externalities.

Comments on Strategic Goal 2: Ensure Liquidity, Stability, and Access in Housing Finance

- **Summary – FHFA's goal for expansion of its regulated entities' support for all participants in the housing finance market, including access for all eligible borrowers across the nation's communities, liquidity outlets for lenders both large and small, and homeownership preservation assistance options, is probably the most important of all three (3) Strategic Goals in the Plan. The most elemental factor for succes in achieving this Goal, besides the implementation of inclusive borrower- and lender-focused action plans, is the ability of the regulated entities to efficiently fund their business models. This critical ability needs to be persistently preserved and/or enhanced.**

In order to provide plentiful, low cost housing finance through the lender community via prescribed single family or multi-family programs, the regulated entities inherently need to have reliable, stable, and liquid funding avenues including the funding of credit risk and defaulted loans. Whether it be equity funding via FHLB stock, primary acquisition funding via agency MBS, funding of credit risk via credit risk transfer securities (CRT), or the funding of balance sheet assets such as re-performing loans (RPLs) via RPL-backed MBS, funding is the principal catalyst for all regulated entity program offerings to their partners.

As an example, agency MBS is the primary funding mechanism that gives the Enterprises the ability to continually acquire single-family mortgage loans, and provide a mutitude of loan acquisition programs, on a very large scale. The vast majority of agency MBS purchasing and selling is done in TBA form, which allows the agency MBS market to be more flexible than other securitie markets, and enables the continued offering of the US 30-year fixed rate mortgage. Through the MBS TBA market, mortgage originators can offer locked rates to borrowers, sell future-closed loans up to several months forward, and turn their capital over quickly and efficiently so they can continue to lend to more borrowers. For investors, the TBA market provides the ability to buy and sell multiple agency MBS bonds issued by the Enterprises in a single transaction. All of these options are made possible by a single, unique trait of the agency MBS TBA market: the ability to make thousands of individual MBS pools, backed by thousands of individual mortgage loans, fungible. And this fungibility, in turn, helps provide the necessary liquidity for the majority of prospective hombebuyers today.

The importance of Enterprise funding through agency MBS and the TBA market is of vital importance to housing finance, but equally important are all the other funding mechanisms utilized by all the regulated entities. Just as prospective homebuyers rely on plentiful and affordable housing finance to achieve their housing goals, so do the regulated entities rely upon plentiful and affordable funding options to reach their respective business goals.

- Suggestions
    - **Continue to make regulated entity funding access and liquidity impacts a core consideration addressed in strategic plans. This includes maintenance and/or creation of funding vehicle forms that align with investor preferences to maximize the investor base.**

Comments on Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships

- **Summary – Strategic Goals 1 and 2 are effectively a part of Goal 3. The preservation and conservation of assets, as well as the reduction of risks to the taxpayer, are both mitigated and/or enhanced in a large part due to maintaining safety and soundness in the regulated entities, in addition to supporting their ongoing viability through funding activities that allow them to successfully support liquidity, stability, and access to housing finance. The handling of risks and requirements of the regulated entities while in conservatorship are prescribed, such as reduction of Enterprise retained portfolios and the resolution of legal and contractual obligations, and the Plan calls for keeping these items on track. The inclusion of continued development on the Common Securitization Platform (CSP) and the Single Security initiative should positively improve funding liquidity for the Enterprises in the future, but in the meantime there could be additional enhancement work to help eventual market uptake. Also, there is the opportunity to develop specific business model goals for either continued conservatorship or the possible future exit from conservatorship.**

The ongoing adminstration of the regulated entities while in conservatorship has relatively clear guidelines and targets, so several parts of the Performance Goals contained within this Goal are a continuation from previous strategic plans and legal agreements, such as the mandated reduction of Enterprise retained portfolios. The initiatives of CSP, Single Security, and the Uniform Mortgage Data Program are highly interrelated, and have definitive roadmaps for execution and completion over the medium-term, but in the meantime there are still opportunities to communicate and enlighten market participants on the coming changes and any practical impacts on the agency MBS markets. On whole, the Plan components for this Goal of managing the ongoing conservatorship of the Enterprises are rather straightforward and necessarily appropriate as included in the Plan.

One aspect that is not outlined in the Plan (and may be outside its scope), is a target business model for the Enterprises, whether they remain in conservatorship, or exit conservatorship as private or quasi-governmental entities. Public or private organizations are comprised of three (3) basic infrastructure components: the operational infrastructure, the legal infrastructure, and the financial infrastructure. The operational infrastructure of the Enterprises (which will include the CSP in the future) is complex, but well developed, tested, and has been working for several decades. The legal infrastructure of the Enterprises has changed from their pre-conservatorship form of independent corporate entity, to conservatorship where the FHFA assumed authority of the management and boards. The financial infrastructure of the Enterprises has also changed, with the capital structure and funding sources becoming more a "public/private" blend with the adoption of the Senior Preferred Stock Purchase Agreement with the US Treasury. Collectively, this may or may represent the optimum infrastructure that best enables the Enterprises to accomplish their goals as outlined by the FHFA, but it may be beneficial establish what the ideal infrastructure is intended to be.

- Suggestions

  - With the assistance of market participants and subjet-matter-experts, develop and analyze Single Security market uptake scenarios (including projected exchange percentages, UMBS trading volume ramp-up, transitional spread/price volatility, etc.) in order to project possible adoption patterns and communicate anticipated scenarios with the market.

  - Research and develop business model infrastructure options that may optimally suit the Enterprises given their primary function today as "acquire-to-securitize" guaranty entities that retain the guaranty liability risk.

  - Create multiple infrastructure versions including: one for remaining in conservatorship, one for exiting conservatorship as private corporate entities, and one for exiting conservatorship as quasi-governmental corporate entities. This would enable comparisons across economic sustainability and profitability metrics, public policy goals, and taxpayer exposure assessment to be conducted more easily.

Thanks again for the opportunity to provide comments regarding the *FHFA Strategic Plan: Fiscal Years 2018-2022* draft. If you have any questions or would like to discuss any of these comments further, please feel free to contact me at your convenience.

Sincererly,

Mark Fontanilla