National Association of Home Builders

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NAHB

July 6, 2010

Sent via electronic mail to RegComments@FHFA.gov

Mr. Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
1700 G Street, NW
Fourth Floor
Washington, D.C. 20552

Re: Comments on the FHFA Proposed Rulemaking for Federal Home Loan Bank Investments (RIN 2590-AA32), page 23631 of the Federal Register, dated May 4, 2010.

Dear Mr. Pollard:

On behalf of the 175,000 members of the National Association of Home Builders (NAHB), I would like to submit comments on the above-referenced proposed rule ("Proposal") issued by the Federal Housing Finance Agency (FHFA), which would reorganize and readopt existing investment regulations that apply to the Federal Home Loan Banks (FHLBanks), including mortgage-backed securities (MBS) and other asset-backed securities (ABS) investment limits on the FHLBanks, that were previously adopted by the Federal Housing Finance Board. The FHFA is also seeking comments on whether the FHFA should adopt additional restrictions or lower the overall limit on the FHLBanks' MBS investments in general, and more specifically on private-label MBS (PLMSB), as part of the final rule.

NAHB is a national trade association representing individuals and companies involved in building single family and multifamily housing (including participants in the Low Income Housing Tax Credit program), remodeling, and other aspects of residential and light commercial construction. Each year, NAHB's builder members construct about 80 percent of all new housing in America. NAHB's builder members are mostly small businesses with limited capital of their own. These small businesses depend almost entirely upon commercial banks and thrifts for housing production credit. Our surveys show that 90 percent of all loans for residential land acquisition, development and construction (AD&C) come from commercial banks and thrifts, many of whom are members of the FHLBank System. Therefore, NAHB views the FHLBanks as crucial components of the housing finance system. A number of NAHB members serve, or have served, on FHLBank boards.

Financial markets have undergone considerable stress and turmoil over the past three years and while some sectors of the system have recovered, other segments remain impaired. In the housing finance system, mortgages supported by government agencies or government-sponsored enterprises are available at affordable interest rates. However, the private mortgage securities market has not recovered and is not a significant factor in the supply of mortgage credit. In addition, the Congress and federal financial institution regulators are in the process of establishing a broad range of new restrictions and requirements for the housing finance system, which will greatly affect the structure and characteristics of mortgages and mortgage-backed securities.

As a result of these factors, the housing finance system seems likely to remain in a period of transition for several more years. In that period, NAHB believes it is extremely important that the FHLBanks have a strong capacity to support mortgage market liquidity and stability through all of their current activities. NAHB, therefore, supports the FHFA's proposal to retain the current requirements for FHLBank MBS investments and does not believe further restrictions should be imposed at this time. We offer the following comments to the specific questions the FHFA has posed.

I. What other measures, beyond the 300 percent of capital rule already contained in the Financial Management Policy (FMP), might offer a prudent limit on the FHLBanks' MBS holdings that also would mitigate potential future losses on those holdings?

NAHB supports the current standard in the FMP that limits an FHLBank's investments in MBS to 300 percent of its total capital. We believe the current limitation allows the FHLBanks an adequate outlet for investing their capital and excess liquidity, while maintaining an appropriate focus on their mission and operating in a safe and sound manner. The 300 percent limit permits the FHLBanks to undertake investments to generate income to bolster retained earnings and support mission activities, including advances, Affordable Housing Program obligations and REFCORP payments. A reduction in this limit is neither prudent nor beneficial.

NAHB also appreciates FHFA's clarification to Section 1267.3(c) that a Bank will not be required to divest securities solely to bring the level of its holdings solely into compliance with the 300 percent of capital limit. We believe this is prudent as a swift divestiture could have significant negative impact on the MBS market, as well as on a Bank's financial position.

II. Should there be a separate limit, or additional restrictions, on the purchase of PLMBS by the FHLBanks? If so, what would these limits or restrictions be?

NAHB does not believe it is necessary for the FHFA to establish specific limits or restrictions on FHLBank PLMBS purchases. We believe it is appropriate to maintain the current regulatory regime, under which the FHLBanks are required to establish prudent risk parameters, limitations and procedures with respect to

PLMBS purchases through investment policies approved by their boards of directors. These risk parameters and policy limits, like other aspects of an FHLBank's credit and investment policies, are subject to review by the FHFA as part of the supervisory process.

III. Should the FHFA restrict PLMBS purchases by the FHLBanks based on the characteristics of the underlying collateral?

As in our response to Question II, NAHB does not believe it is necessary for the FHFA to establish specific limits or restrictions on FHLBank PLMBS purchases. Again, these activities should be governed by the FHLBanks' board-approved investment policies that are subject to FHFA supervisory examination.

IV. Should the FHFA reintroduce a limitation on the FHLBanks' purchase of MBS to require that all such purchases must be rated in the highest investment grade category?

Consistent with our answers to II and III, NAHB believes that the FHLBanks' board-approved investment policies, which are subject to FHFA supervisory examination, should determine whether the requirement that all PLMBS purchased by an FHLBank must have the highest investment grade rating at the time of purchase should be reintroduced. As a practical matter, the FHLBanks historically have operated in compliance with this standard. If this change is made, a FHLBank should not be required automatically to divest a PLMBS if it is downgraded later as ratings can change.

NAHB appreciates the opportunity to provide comments. Please contact Kim Moore, (202) 266-8529; kmoore@nahb.org, if there are questions concerning our letter.

Sincerely,

David L. Ledford

David L. Ledford
Senior Vice President
Housing Finance and Land Development