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March 4, 2008 ***By electronic delivery***

Mr. Alfred M. Pollard
General Counsel
Office of Federal Housing Enterprise Oversight
1700 G Street, NW, Fourth Floor
Washington, DC 20552

Re: **RIN 2550–AA38**, Risk-Based Capital Regulation – Loss Severity Amendment, 72 Federal Register 68656, December 5, 2007

Dear Mr. Pollard:

The Office of Federal Housing Enterprise Oversight ("OFHEO") has proposed to amend the risk-based capital regulation for Fannie Mae and Freddie Mac by modifying the (1) loss severity equations on defaulted single-family government-guaranteed and conventional loans and (2) treatment of government guarantees.

The American Bankers Association ("ABA") supports the proposal's intent to enhance the accuracy and transparency of the risk-based capital rule. ABA brings together banks of all sizes and charters into one association. ABA works to enhance the competitiveness of the nation's banking industry and strengthen America's economy and communities. Its members – the majority of which are banks with less than $125 million in assets – represent over 95 percent of the industry's $13 trillion in assets and employ over two million men and women.

ABA supports regulation that ties capital requirements to risk exposure. We support the proposed changes to the risk-based capital rule that relate to government-guaranteed loans. The changes would correct deficiencies in the current formula by more accurately modeling the contractual terms of the Federal Housing Administration and Veterans Administration loan programs.

The proposal would also change the current risk-based capital calculation by restricting the loss severity equations for single-family conventional and government-guaranteed mortgages; it would preclude negative losses on foreclosed loans in the stress test simulation.

ABA believes that making a capital rule more conservative does not necessarily make it better. Arbitrary restrictions based on preconceived expectations can lead to capital regulation that does not encourage better risk management. If it can be demonstrated that risk-mitigation techniques such as extra primary coverage and back-end reinsurance for mortgage portfolios can be fully effective, these techniques should be recognized in the risk-based capital standard. Such credit enhancement arrangements can be an appropriate macro hedge strategy to reduce overall credit risk and thereby enable Fannie Mae and Freddie Mac to purchase and guarantee more loans. However, the regulation should ensure that use of such hedge techniques is applied in an appropriate and balanced manner.

OFHEO has stated that it will continue to review the data, methodologies and components of the risk-based capital stress test. In considering any future changes, ABA encourages OFHEO to take into account the implications for the capital requirement as a whole – including specifications that overstate losses as well as those that understate losses. Moreover, the risk-based capital rule should properly reflect and actively support the role of credit enhancement in risk management.

Thank you for providing us with the opportunity to comment on the proposed changes to the risk-based capital regulation.

Sincerely,

Robert R. Davis

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