



VIA E-mail: sysrisk@ofheo.gov

January 29, 2001

Mr. Robert S. Seiler, Jr.
Manager of Policy Analysis
Office of Federal Housing Enterprise Oversight
1700 G Street, NW - Fourth Floor
Washington, D.C. 20552

Re: Study of Possible Systemic Risk Posed by the Federal Home Loan
Mortgage Corporation (Freddie Mac) and the Federal National
Mortgage Association (Fannie Mae)

Dear Mr. Seiler:

The Credit Union National Association (CUNA) appreciates the opportunity to comment on the Office of Federal Housing Enterprise Oversight's (OFHEO's) study of the possible systemic risk that Freddie Mac and Fannie Mae may pose to the financial system and to housing finance markets. CUNA represents more than 90 percent of our nation's 10,500 state and federal credit unions.

The OFHEO study will examine the nature and magnitude of any risks posed by these government-sponsored enterprises (GSEs), whether and to what extent these GSEs contribute to or mitigate systemic risks, and actions that OFHEO and others may take to limit these possible risks.

Over the past thirty years, Freddie Mac and Fannie Mae have helped to finance homes for tens of millions of families. Over the next ten years, it is expected that 50 million families will obtain new mortgages. A number of credit unions and other lenders will rely on Freddie Mac and Fannie Mae to help provide these families with a reliable and affordable source of mortgage financing.

Although GSEs may pose some risk to the financial system, the same would also be true for large banks, brokerage firms, and hedge funds. For GSEs, we believe that any such risks are substantially mitigated because the GSEs are well managed, financially sound, and regulated. Also, both Freddie Mac and Fannie

Mae have voluntarily committed to strengthen their safety and soundness measures by:

- pledging to maintain the sum of core capital and outstanding subordinated debt equal to more than four percent of assets;
- committing to maintain more than three months of liquidity;
- implementing interim stress tests; and
- publicly disclosing results of various risk tests.

Over the last ten years, the risks posed by the GSEs have been studied in depth by the Treasury Department, Congress itself in hearings, the Congressional Budget Office, the General Accounting Office, consultants retained by Freddie Mac and Fannie Mae, rating agencies, and private analysts. It is not clear how OFHEO's study will differ from these previous efforts or add value to the previous research. Moreover, it appears that the OFHEO study is focused entirely on risks, without considering the rewards generated by those risks for homeowners, financial institutions, the furthering of government policies in favor of homeownership, and other stakeholders in the GSE system, and the economy.

GSEs cannot exist unless the government is willing to accept a reasonable level of risk and the reasonableness of a given level of risk cannot be assessed without a clear understanding of countervailing rewards produced. The only real issue is what the minimum level of risk should be in light of the public policy purposes of the GSEs.

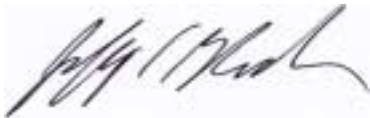
We do not believe OFHEO has a mandate to question either the public policies, especially increased homeownership, that the GSEs are intended to further, or Congress' determination, initially made many years ago and reaffirmed many times since, that GSEs are the best means of furthering those policies. Rather, we believe that OFHEO's role is to help determine how much the risks posed by the GSEs can be minimized without jeopardizing their missions—and to do this within the highly specific constraints of OFHEO's enabling statute.

For credit unions, the rewards produced by the GSEs are, or have the potential to become, substantial. Fannie Mae and Freddie Mac have demonstrated a greater level of interest in doing business with smaller financial institutions than most of their purely private counterparts. This is vitally important to credit unions, which have only \$434 billion in assets spread among approximately 10,500 institutions. Credit unions cannot hope to serve as full-service financial institutions for their members unless they can offer long-term, fixed-rate home mortgages. Yet without the GSEs, or some other mechanism interested in serving small lenders, many credit unions would effectively be precluded from offering such mortgages to their members, because they lack the resources to effectively manage the interest rate risk that is created by holding long-term, fixed-rate mortgages in portfolio.

Because of the benefits that credit unions and their members receive as a result of access to the secondary market, CUNA will be very interested in reviewing the results of the study that OFHEO is now undertaking. We hope that any conclusions regarding possible systemic risks will be weighed very carefully against the benefits that credit unions and their members have already received as a result of the impact that Freddie Mac and Fannie Mae have had on the mortgage market over the past thirty years. We also hope that OFHEO provides all interested parties with an opportunity to review the results of the study as soon as they are available and to comment on these results before the study is issued in final form.

Thank you for the opportunity to comment on OFHEO's study of the possible systemic risk that Freddie Mac and Fannie Mae may pose to the financial system. If you or other staff have questions about our comments, please give me a call at 202-218-7795.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey Bloch", written over a light blue rectangular background.

Jeffrey Bloch
Assistant General Counsel
Credit Union National Association