

March 10, 2000

Mr. Armando Falcon, Director
Office of Federal Housing Enterprise Oversight
1700 G Street, NW
Washington, DC 20552

Re: Response to Proposed Risk-Based Capital Rule for the GSE's

Dear Mr. Falcon:

We are pleased to hear that OFHEO and the GSE's have come closer together in employing a stress test model that provides a comfort level for each to adequately serve their respective missions. Financial strength and stability and safety and soundness for the GSE's is critical to assure that both enterprises will be able to provide funding to low- and moderate-income home buyers in good, as well as, bad economic times anywhere in the nation.

There are a few important considerations we would offer for your consideration in developing the structure and guidelines for the final rule.

1. Provide **capital requirement bonus points** for innovation and product development that responds to the needs of the affordable housing market, with prime consideration given for efforts targeted to African and Hispanic American homebuyers, homeowners, seniors and core urban communities.
2. Allow additional incentives and regulatory relief that will prompt the enterprises to develop **enterprise based risk-sharing agreements**. Specifically, sub-prime mortgage seller recourse arrangements and mortgage insurance agreements for loans to under-served areas and populations.

A "**Safe Harbor Rule**", in the final rule can be applied to these targeted areas of enterprise activities. This would be extremely important in increasing competition between the enterprises and innovation in the affordable housing and community development industry. Traditionally Fannie Mae and the Fannie Mae Foundation takes the lead in creating and or promoting services, products and programs that target under-served populations and areas. Once they are proved successful Freddie Mac and portfolio lenders develop variations of these programs.

If a bonus point system were applied for such efforts for the GSE's, Freddie Mac would be encouraged to compete with Fannie Mae with aggressive efforts of under-served market product innovation. The time frame for new and effective products and services coming to the under-served market will be greatly reduced, while also accelerating the increase in homeownership rates amongst the under-served populations and areas. These competitive efforts would also provide tremendous leverage to local government efforts of community revitalization.

One example of this competitive success is illustrated in the activities of the HUD Store Front Offices and Community Builders Program and the Fannie Mae Housing Impact Division and its Partnership Offices Programs. Local government and the non-profit affordable housing industry rely on both organizations' local structures in their community development efforts.

Traditional sub-prime lending activities are a tremendous problem for the African and Hispanic American family, urban and rural areas and their economies. Mortgage insurers earn disproportionately high fees for the risk they assume on GSE loans. They appropriately have much less government regulatory requirements and oversight than the GSE's and the traditional banking and savings and loan industry.

Private sector entities are more likely to employ home mortgage lending and insuring practices that is often considered discriminatory and predatory by affordable and fair housing advocates. They have tremendous economic incentive to maintain the status quo of high cost and disparate treatment. The largest GSE seller servicers all have sub-prime lending products or subsidiaries. The GSE's should provide the innovation and competitions needed to bring these cost down and deter the bait and switch practices of the major home mortgage lenders. Also to mitigate the high cost and rigid underwriting standards of private mortgage insurers.

The proposed risk-based capital rule of OFHEO for the GSE's must be proactive to both assure the safety and soundness of the GSE's, while providing incentives for them to improve access to fairly priced and structured home loan mortgage capital to the under-served communities and populations of this nation. The traditional private home mortgage lending and insuring sector has no mandate to do so.

The American taxpayer and all communities throughout this nation will benefit enormously from the improved homeownership rates of Hispanic and African American families. HUD, OFHEO and the GSE's can greatly improve this goal in giving favorable consideration to a "Safe Harbor Rule", in the final risk-based capital rule that includes bonuses, incentives, sub-prime home mortgage lending products and mortgage insurance products for the GSE's to continue and expand on their efforts of improving the flow of fair and equitable mortgage capital to under-served communities and populations of this nation.

There will be no better time than now to enhance the dynamic innovative partnership between OFHEO, HUD and the GSE's to insure meaningful strives toward increasing the homeownership rates of Hispanic and African American families. While also improving the fairness and equity of the home loan mortgage system by decreasing the disparate rates and terms now predominately being targeted to the urban and minority community.

There is no better-experienced and committed team than that of Secretary Cuomo, HUD, Director Falcon, OFHEO and Chairman/CEO Raines, Fannie Mae to achieve this goal.

If you have any questions or concerns regarding this response please contact me at (510) 562-6573.

Sincerely,

[signed: Ray Carlisle]

Ray Carlisle
President, NID
& Legislative Chair, NAREB

cc: Ernest Clark, President, NAREB