

March 10, 2000

Ms. Anne Dewey  
General Counsel  
General Counsel's Office  
Office of Federal Housing Enterprise Oversight  
1700 G Street NW  
Washington, DC 20552

Dear Ms. Dewey:

First, I appreciate the opportunity to provide comments on the risk based capital proposal advanced by OFHEO.

Secondly, the most important aspect of the proposal, I feel is the negative impact it may have on Fannie Mae and Freddie Mac's ability to innovate in response to the needs of the affordable housing market. Their retrenchment on affordable housing product development, I feel, is the most important and potentially dangerous impact that the proposal could create.

Fannie Mae and Freddie Mac, over the past five years have made unprecedented strides in the areas of affordable housing experiments that have resulted in significant housing opportunities for low income Americans with little impact on either company's overall risk status.

With that as my goal I'll comment on specific areas:

### **Single Family Defaults and Severity**

- You may want to use "calibration constraints" to actual experience. The resulting rate for each projected year could be driven by a "smoothed average" of the previous 5 to 10 years plus a "stress factor of x number of basis points." It is extremely important not to minimize the production of low down payment loans. These are critical to serving the low to moderate income households throughout the country.
- I would also suggest a process of averaging "all regions" to complement the bullet mentioned above, significantly simplify the process and more fairly reflect the impact on each company.

### **House-Price Inflation in High-Rate Environment**

- This could be handled by adjusting the house-price increases using a high rate environment factor.

### **Counterparty Haircuts**

- It seems unreasonable to have the counterparty haircuts especially high since there are so many counterparties that would have to be out of line at the same time. This is especially critical for multifamily housing because risk sharing is so critical to this effort.

### **Non-Treasury Interest Rate Spreads**

- Both institutions have so much expertise and history at managing interest rate spread that using historic averages seems a reasonable alternative.

### **Funding With Short Term Debt**

- While the possibility of being forced to short term borrowing is possible negotiating a formula to consider only a small percentage of short term debt seems reasonable.

Finally, I feel it is important for the OFHEO to realize that additional capital requirements resulting in increased costs to the two companies will result in a negative impact to the affordable housing effort in America more quickly and with a larger negative impact than any other housing segment.

Thanks again for letting me review these important proposed changes and if I can help in any way please contact me at 614-228-8303.

Sincerely,

[signed: Paul R. Taylor, Jr.]

Paul R. Taylor, Jr.

PRT/kcg