ASSOCIATION OF LOCAL HOUSING FINANCE AGENCIES
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March 13, 2000

Ms. Anne Dewey
General Counsel
Office of the General Counsel
OFHEO
1700 G Street, NW
4th Floor
Washington, DC 20052

Dear Ms. Dewey:

The Association of Local Housing Finance Agencies (ALFHA) is very concerned about potentially adverse implications of your proposed risk-based capital regulation for Fannie Mae and Freddie Mac. ALFHA is a national association of professionals working to finance affordable housing at the local level. Our members are city and county agencies, nonprofits, and private firms that help in producing housing from concept to completion. Many of our member agencies rely on Fannie Mae and Freddie Mac to purchase and credit enhance their mortgage revenue bonds and to partner with them on innovative affordable housing initiatives.

Effective regulation can ensure the safety and soundness of Fannie Mae and Freddie Mac while allowing both institutions to carry out their public mission. However, a poorly specified regulation may well disrupt the ability of the GSEs to offer products and services most critical to those in need of affordable housing. ALFHA is particularly concerned that the regulation as proposed will incent Fannie Mae and Freddie Mac to reduce innovation in new products and services targeted to those most in need, either though a reduction in risk-sharing or because of inflexibility in the capital standard. We fear it will also reduce the value to Fannie Mae and Freddie Mac of low income housing tax credits, mortgage revenue bonds, and other vehicles that facilitate affordable housing by creating unwarranted obstacles that prevent the GSEs from taking prudent risk in their daily activities.

The proposed regulation should be sufficiently flexible to reflect the capital treatment of new products and activities, on a timely basis. Fannie Mae and Freddie Mac should be encouraged to participate in partnerships that spawn innovative ideas and solutions to problems in affordable housing. If the capital treatment for new innovations is uncertain, the GSEs will be discouraged from pursuing experimentation that will lead to advances in affordable housing.

Continued innovation also depends upon prudent risk sharing. Effective capital regulation should incent and reward risk-sharing arrangements. Innovation will be furthered and safety and soundness improved if risk can be shared between the GSEs and as many credit-worthy institutions as possible. We encourage you to ensure that the risk-based capital standards are not an impediment to product development.

The GSEs should not be incented to reduce their purchases of securities, such as mortgage revenue bonds, that are instrumental in channeling funds to first time homebuyers. Similarly, the use of other vehicles for improving the cost and availability of capital for affordable housing, such as low income housing tax credits, should not be discouraged by the proposed regulation. Fannie Mae and Freddie Mac investment in both mortgage revenue bonds and tax credits have become vital housing activities that need to be expanded. Effective risk-based capital standards should ensure both prudent levels of capital and risk management while maintaining the viability of tools used by the GSEs to further growth in affordable housing.

We appreciate the opportunity to express our concerns. Thank you for your favorable consideration of our views.

Sincerely,

[redacted]

John C. Murphy
Executive Director