



March 14, 2000

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

To whom it may concern:

Goldman, Sachs & Co. (“Goldman”) is grateful for the opportunity to comment on the notice of proposed rulemaking of the Office of Federal Housing Enterprise Oversight, related to the Risk-Based Capital of Freddie Mac and Fannie Mae (64 FR 18083). In particular, we would like to focus on the prepayment assumptions made by OFHEO in the proposed rule.

Of the prepayment models that we've recently examined, the OFHEO proposal takes a dramatically different view of single-family housing turnover in rising rate scenarios. According to our analysis of historical data—refer to our publicly available research on this topic (<https://www.gs.com/fi/mortgage>), including our most recent Mortgage Weekly—we believe that the minimum level of long-term housing turnover, covering the ten year horizon of the stress tests, is close to 120% PSA or 7% CPR. These figures are roughly double the numbers proposed by OFHEO. We believe the discrepancy is due to several factors that Goldman considers important, but which the OFHEO proposal may not be taking into account:

- The non-assumability of conventional mortgage loans (since 1985);
- The long-run correlation of home price inflation with rising interest rates;
- The absence of attractive ARMs and balloons to divert high-turnover borrowers from the fixed rate mortgage pool (from 1995 through 1999); and
- The unusually high equity of mortgage pools that were originated during major refinancing waves.

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If OFHEO were to incorporate these key elements into its model, as we have in our prepayment model, the results would almost certainly conform more closely with our view of the market's judgment. We would support 100-120% PSA or 6-7% CPR as a conservative assumption, yet one that's realistic enough to constitute a significant technical improvement to the current proposal. As an alternative, OFHEO could streamline its proposal and simply adopt a specific prepayment rate for the high-rate stress test.

We appreciate the opportunity to comment on your proposal. Please direct any questions related to these comments to Alan Brazil at 212-902-4822.

Sincerely,

[signed Alan Brazil]

Alan Brazil