

January 14, 2001

Alfred Pollard
General Counsel
Office of Federal Housing Enterprise Oversight
Fourth Floor
1700 G Street, NW
Washington, CD 20552

Dear Mr. Pollard:

Thank you for your prompt action to correct problems with the original rule, and for addressing many of the concerns we expressed to you at our face-to-face meeting and in writing. These corrections go a long way toward making required capital levels consistent with the risk, while not creating significant competitive disadvantage or dislocation.

There are a few areas that OFHEO could improve the rule further and they are highlighted below:

Counterparty risk. The haircut and phase-in modifications are appropriate and correct a major problem with the original rule. However, OFHEO should go further. The haircut levels remain high relative to the risk, and the differences between levels still remain too large in our opinion. The loss assumptions still appear very high to us and seem to drive this inordinate difference. We think OFHEO should use loss rates based on the stress period OFHEO has used for other provisions in the rule. The language in the statute mandating the RBC rule would appear to support this.

Fannie Mae DUS Lenders. We strongly support another improvement in the counterparty risk provisions that directly relates to the Fannie Mae DUS lenders. Unrated DUS lenders are treated as BBB counterparties. Under the proposed rule, the OFHEO Director has discretion to consider other factors and improve this rating. The language indicates that an improvement in rating requires a cash reserve account held as collateral of at least 1% of the at-risk portfolio balance. In addition to the reserve accounts, we urge OFHEO to include capital and the value of servicing as support for an improved rating. Fannie Mae DUS servicing includes a large premium for the shared risk. This premium would be available to Fannie Mae to support the counterparty risk. Fannie Mae explicitly recognizes this value when computing required capitalization. Not giving any credit to the servicing ignores a critical source of support for the risk.

ARM and Underwater DSCR Flags. We also strongly support the proposed changes to the ARM flag and to the "underwater DSCR" flag. These changes mitigate the punitive levels of capital assigned to ARM loans under the original rule, and reduce the volatility of required capital. We urge OFHEO to continue to examine capital requirements related to ARM loans. Even with the changes, our analysis indicates that the rule continues to assign capital levels to ARM loans in excess of the actual risk.

Affordable Housing. We support OFHEO's efforts to accurately model the risks in low income housing loans, including loans to projects accepting Section Eight vouchers. This housing serves a critical need, and it is extremely important to carefully balance the risks and not create disincentives for us and the GSEs to expand our lending in affordable housing.

Finally, we would be happy to work with OFHEO in any way we can to improve the data and analysis available for multifamily housing. We believe this effort will continue to improve the accuracy of the model and benefit your regulatory function as well as the industry at large.

Thank you for the progress we have made so far.

Sincerely,

Shekar Narasimhan