January 15, 2002

The Honorable Armando Falcon, Jr.
Director
Office of Federal Housing Enterprise Oversight
1700 G Street, NW, 4th Floor
Washington, DC 20552

Dear Director Falcon:

I am writing regarding the recently revised risk-based capital rules as they relate to Fannie Mae's potential future investment in mortgage revenue bonds. It is my request that you reconsider the set aside capital percentages recently established and lower those percentages taking into consideration the first-tier credit on the loans that provide security for the mortgage revenue bonds.

SDHDA's whole loan portfolio of just over $1 billion contains loans insured or guaranteed as follows:

FHA	54.37%
VA	10.55%
USDA Rural Development	18.16%
Private Mortgage Insurance	10.93%
Uninsured (less than 80% LTV)	5.99%

It has come to my attention that the newly revised capital rules may prevent Fannie Mae from purchasing AA-rated housing bonds at all and significantly reduce future purchases of AAA-rated bonds.

SDHDA Homeownership Bonds carry the AAA rating from Standard and Poor's and Aa1 rating from Moody's. Our delinquency rate the past four years has remained at 3 percent or less, and in only one month during that time did it reach 3 percent. When not using the Fannie Mae multifamily loan programs, we typically use the multifamily Risk Share Program which provides a fifty percent FHA guarantee on the loans made with the proceeds of bonds issued under that Program.

I strongly recommend that you meet with the GSEs regarding their proposed alternative rule which would take into account the credit for bond issues collateralized by Ginnie Mae and Fannie Mae MBS (Ginnie Mae MBS backed by the U.S. and Fannie Mae MBS would have already set aside risk-basked capital via its mortgage portfolio). Further it would take into account the strength of housing finance agencies and our public purpose mission to monitor and manage our business. I submit that the OFHEO Risk-Based Capital Rules will drive up homeownership and rental costs to low and moderate income first-time homebuyers and low-and moderate income renters as we would have to structure our bond issues to attract investors that typically do not invest in housing bonds.

Thank you for your consideration to this matter. If you have any questions, please call me.

Sincerely,

Darlys J. Baum
Executive Director

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