NALHFA
National Association of Local Housing Finance Agencies

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January 15, 2002

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

Dear Mr. Falcon:

This letter is in follow-up to my letter of September 12, 2001 (copy attached). The membership of the National Association of Local Housing Finance Agencies (NALHFA) is pleased to see that the Office of Federal Housing Enterprise Oversight (OFHEO) has proposed additional changes to the provisions of the Risk-Based Capital Rules that deal with tax-exempt Mortgage Revenue Bonds (MRBs). However, in our review of the new rules we still believe that the requirements for the GSEs to set-aside Capital for their investment in AAA rated and AA rated housing bonds is still excessive, could ultimately lead to higher mortgage rates and rental payments for low-and moderate income families, and potentially cause a damper on the housing markets which have been a mainstay of our Country’s economy.

Specifically, NALHFA believes that MRBs that are collateralized by Ginnie Mae and Fannie Mae Mortgage Backed Securities (MBS) should be equivalent to a “Cash” ratings designation. The Ginnie Mae MBS are backed by the U. S. Government and the Fannie Mae MBS would have already received appropriate capital set-aside on the mortgage side. By requiring Capital on these types of transactions, OFHEO would be diverting Capital that could be used for additional affordable housing programs.

We ask that you also look at the capital set-asides for AAA rated bonds (not backed by Ginnie Mae MBS or Fannie Mae MBS) and AA rated bonds. The current rules call for 3.5% for AAA and 8.75% for AA rated bonds. These bonds are structured to negate as much risk as possible to the bondholder by using primarily FHA loans, private mortgage insurance, reserve funds, and in some cases, bond insurance. Coupled with the strength of the housing finance agency and their public purpose mission, the set-aside Capital requirements for AAA and AA rated bonds should be much lower, i.e. 1.50% for AAA and 3.75% for AA.

Thank you again for considering the views and recommendations of the National Association of Local Housing Finance Agencies.

Sincerely,

John C. Murphy

John C. Murphy
Executive Director