

January 17, 2002

The Honorable Armando Falcon, Jr.  
Director  
Office of Federal Housing Enterprise Oversight  
1700 G Street, NW, 4<sup>th</sup> Floor  
Washington, D.C. 20552

Dear Mr. Falcon:

I am writing concerning the proposed Risk-Based Capital Rules under consideration by the OFHEO and their implications for the GSEs, in particular Fannie Mae.

While the recently amended rules are an improvement, I believe that Fannie Mae's purchase of Mortgage Revenue Bonds (MRBs) will still be negatively affected by the rules, driving up the cost of buying a home or leasing an apartment for a low-income family. With the nation facing major problems with the affordability of housing, the impact of this rule must be reevaluated.

Fannie Mae is a vital purchaser of long term, tax-exempt bonds issued by our agency and, at times, has been the only buyer in the market for certain maturities at reasonable prices. The proceeds of these bond sales are used to capitalize our first-time home buyer program that assisted over 2,000 families last year in North Carolina. The majority of the loans are federally insured or guaranteed, and are also credit enhanced with a default reserve or surety in order to secure a AA credit rating by Moody's and S&P. None of our bond issues has ever been downgraded or placed on credit watch, and our mortgage performance consistently is better than the consolidated delinquency and foreclosure statistics issued by the National Mortgage Bankers Association.

Our cost of capital is central to maintaining the affordability of our mortgages and every basis point we can reduce borrowing costs is important to working families in managing their budgets.

I understand that the proposed rules, even with revisions, may eliminate Fannie Mae's purchase of AA rated MRBs, despite all the protections for bond investors used by agencies such as ours. The OFHEO risk assessment needs a more thorough review to prevent it from needlessly raising the cost of home ownership.

Please review again the effect of the Risk-Based Capital Rules on Fannie Mae and particularly whether they will disadvantage the purchase of Mortgage Revenue Bonds.

Sincerely,

A. Robert Kucab  
Executive Director