

January 17, 2002

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

Dear Mr. Pollard:

On behalf of the nation's state Housing Finance Agencies (HFAs), the National Council of State Housing Agencies (NCSHA) commends the Office of Federal Housing Enterprise Oversight (OFHEO) for reevaluating the potential impact of its risk-based capital rule on GSE purchases of HFA tax-exempt bonds. However, we ask OFHEO to revisit the issue once more to avoid the unintended effect of discouraging GSE purchases of HFA bonds and driving up the cost of affordable housing to low and moderate income families.

Though we appreciate OFHEO's proposed reductions in stress test haircuts on AAA- and AA-rated bonds, these reductions still are not sufficient to recognize the strength and soundness of HFA bond investments. In conducting our analysis, we have conferred with Fannie Mae and Freddie Mac about the proposed changes, and they agree that the counterparty discounts associated with GSE purchases of HFA bonds are still higher than warranted under reasonable economic analyses and would likely dramatically limit their HFA bond purchases.

State HFAs issue about \$10 billion of Mortgage Revenue Bonds (MRBs) each year—mostly AAA- and AA-rated—to make more than 100,000 below-market rate mortgages to low and moderate income first-time home buyers. HFA bonds typically are backed by federally insured mortgages, Ginnie Mae securities, private bond insurance, or GSE securities. HFAs issue their bonds under structures designed to balance the need to protect the bondholders' interest with the HFAs' affordable housing mission. No state HFA bond has ever defaulted.

By purchasing and investing in HFA bonds, GSEs make safe and sound investments that further their and the HFAs' shared affordable housing mission. If the GSEs were to leave the market or significantly reduce their purchases, bond and mortgage interest rates would rise, increasing mortgage costs for low and moderate income homebuyers and renters.

Last year, Fannie Mae purchased \$2 billion of MRBs and Freddie Mac, an additional \$1 billion. Fannie Mae represents the nation's single largest investor in MRBs. The two companies' total purchases amount to about 25 percent of all bonds issued on an annual basis. The GSE purchases meet an important need for investors in long-term bonds that are generally more difficult to sell than other bonds.

We agree with Fannie Mae that the rule would be significantly improved by reducing the haircuts for GSE purchases of HFA bonds or, more generally, for investments with characteristics that suggest a low likelihood of default, such as federally insured collateral, strong private mortgage insurance coverage, or robust historical performance records.

HFAs are strong financial entities created and designed to access the capital markets to assist first-time homebuyers and make housing more affordable for low and moderate income families. For many years, HFAs and the GSEs have had a productive partnership that brings much-needed capital to the HFAs, exposes the GSEs to minimal risk, and furthers the affordable housing missions of both. We urge OFHEO to modify the proposed rule to recognize the true, minimal risk HFA bonds pose to the GSEs and protect this important investment in affordable housing.

Sincerely,

Barbara J. Thompson
Executive Director