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Mr. Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
Eighth Floor
400 Seventh Street, SW
Washington, DC 20219

Attention: Comments/RIN 2590-AA95 – Proposed Rule on Enterprise Capital Requirements

Dear Mr. Pollard:

Fannie Mae appreciates the opportunity to comment on the Federal Housing Finance Agency's ("FHFA") re-proposed capital rule for Fannie Mae and Freddie Mac (the "Enterprises") published on June 30, 2020 (the "Proposed Rule").[1] The Proposed Rule builds upon the framework introduced by FHFA in its 2018 proposed capital rule (the "2018 Proposal")[2] with the objective of creating a robust capital regime for the Enterprises. Appropriately designed and calibrated, risk-sensitive regulatory capital standards for the Enterprises will safeguard the housing finance system and enable the Enterprises to operate in a safe and sound manner and fulfill their defined and unique public mission through all market conditions.

Three principles should guide the regulatory capital framework for the Enterprises

FHFA emphasizes that the Proposed Rule's purpose is to "establish a regulatory capital framework that ensures the safety and soundness of each Enterprise and that each Enterprise is positioned to fulfill its statutory mission across the economic cycle, in particular during periods of financial stress,"[3] while also supporting the eventual end of conservatorship. To further this purpose, Fannie Mae believes the regulatory capital framework for the Enterprises should reflect the following three principles:

- **Capital Requirements should be Tailored to Risks**: Establish capital requirements that are commensurate with the specific risks the Enterprises actually take and encourage prudent risk-taking and risk management in support of safety and soundness.
- **Capital Requirements should Support the Enterprises' Mission through all Economic Cycles**: Permit the Enterprises to fulfill their statutorily-defined mission in all markets, through all economic cycles, including by encouraging sustainable and affordable lending to low- and moderate-income families.
- **Capital Requirements should Support the Responsible End of Conservatorship**: Enable the Enterprises to operate outside conservatorship with loss-bearing, private-sector capital, consistent with their chartered status as private-sector, shareholder-owned companies.

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[1] Enterprise Regulatory Capital Framework, 85 FR 39274 (June 30, 2020).
[2] Enterprise Capital Requirements, 83 FR 33312 (July 17, 2018).
[3] 85 FR 39287.

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There is an inherent potential for tension among these principles. If capital requirements are too low, safety and soundness may be imperiled. If capital requirements are procyclical, not properly calibrated to risk or too high, they may prevent the Enterprises from being able to fulfill their housing missions mandated by Congress. Capital requirements that are not appropriately designed and calibrated may also prevent the Enterprises from generating a level of return on equity that is consistent with operating as private-sector, shareholder-owned companies and necessary to obtain the private-sector investment required to recapitalize the Enterprises and protect taxpayers. Fannie Mae is concerned that the Proposed Rule may not achieve the best balance among the three principles. The recommendations in this letter would adjust the balance so that the final capital framework, while in Fannie Mae's view still ensuring safety and soundness, does not impede the Enterprises' achievement of their mission or complicate the path to ending conservatorship.

As compared with the 2018 Proposal, the Proposed Rule would substantially increase regulatory capital requirements due to a variety of factors, including: the increase in leverage-based requirements; the introduction of several new buffers; the compounding procyclical elements, which could require the Enterprises to maintain substantial management buffers on an ongoing basis in addition to the proposed regulatory capital buffers; and the reduced recognition of the risk-mitigating benefits of credit risk transfer ("CRT") transactions. There are also elements of the Proposed Rule that Fannie Mae believes would reduce risk sensitivity and could affect Fannie Mae's ability to fulfill its housing mission, such as the introduction of risk weight floors and the elimination of the multiplier for government-subsidized rental housing.

If all else is constant, higher capital requirements would require the Enterprises to have more equity capital, and as equity capital increases, the Enterprises must earn more to maintain the same return on equity. For Fannie Mae's business model, the most viable source of higher earnings would be increases to guaranty fees. To satisfy the requirements of the Proposed Rule while achieving a rate of return sufficient to attract loss-bearing, private-sector capital, increases to guaranty fees may be required. The final capital framework should take into account the potential impact of such guaranty fee increases on the borrowers Fannie Mae serves and housing affordability generally.

The final capital framework should support the Enterprises' ability to achieve their housing mission

Congress established the Enterprises as private-sector, shareholder-owned companies with an obligation to serve the low-, moderate-, and middle-income segments of the mortgage market. Congress also recognized that the Enterprises must be well capitalized in order to serve their purpose over the long-term through all market conditions.

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The Enterprises' Charter Acts[4] define their mission of providing liquidity, increasing stability, and promoting affordability in the residential mortgage market. Specifically, the Charter Acts state that the Enterprises' purposes are to:

- provide stability in the secondary market for residential mortgages;
- respond appropriately to the private capital market;
- provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing; and
- promote access to mortgage credit throughout the Nation (including central cities, rural areas, and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

The Enterprises are also subject to affordable housing goals covering their purchases of single-family and multifamily mortgages, as well as a duty to serve certain underserved markets.[5] To meet these goals and carry out this duty to underserved markets, the Enterprises are required, and Fannie Mae embraces the opportunity, to "assist primary lenders to make housing credit available in areas with concentrations of low-income and minority families" and "help finance low- and moderate-income housing, including housing for first-time homebuyers."[6] These obligations include support for affordable rental housing.

The Enterprises' affordable housing mission is unique among financial institutions subject to regulatory capital requirements. Insured depository institutions are subject to evaluation by their Federal supervisors in meeting the convenience and credit needs of the communities they serve under the Community Reinvestment Act, however that statute does not allocate credit or set goals for institutions. Financial institutions are also subject to consumer protection requirements and activities restrictions, but these are not mission-focused. Unlike the Enterprises, other financial institutions do not have an affordability mandate within their legal structure and, therefore, have considerably more flexibility regarding the markets they serve. The affordability obligations in the Enterprises' charters require them to provide a steady presence in the conforming loan and multifamily markets, including lower-income owner and renter segments. Moreover, executing on this affordable housing mission is central to the Enterprises' business strategy and deeply rooted in the culture of the companies. The Enterprises together provide approximately 40% of loans

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[4] 12 U.S.C. 1716 et seq. (Fannie Mae); 12 U.S.C. 1451 et seq. (Freddie Mac).
[5] 12 U.S.C. 4561-4565.
[6] 12 U.S.C. 4565(b)(3)(A), (4). See also 12 U.S.C. 4501(7) (Congressional finding that the Enterprises "have an affirmative obligation to facilitate the financing of affordable housing for low- and moderate-income families in a manner consistent with their overall public purposes, while maintaining a strong financial condition and a reasonable economic return").

targeted towards low- and very low-income borrowers, supporting other public, and private programs.

For the Enterprises to meet the proposed capital requirements while fulfilling their mission and generating a return that meets investor expectations, guaranty fees may need to increase. For example, to achieve a 10% return on capital on new acquisitions, Fannie Mae estimates that single-family guaranty fees would need to increase by approximately 20 bps, on average, compared to those charged in 2019.[7] This increase in guaranty fees could be offset in part if the 10 bps fee under the Temporary Payroll Tax Cut Continuation Act of 2011 is phased out as scheduled, but could also be compounded if a commitment fee such as the one established by Treasury's preferred stock purchase agreement becomes payable. Ultimately, the level of guaranty fee increase would depend upon many factors, including market return expectations, the credit characteristics of the acquired loans, the amount of capital that management deems necessary to hold above regulatory minimums, competitor pricing strategies, and mortgage market conditions.

Both Enterprises currently accept lower returns on loans to lower-income borrowers to help achieve their affordable housing mission. Higher returns on loans to borrowers with higher credit scores and loans with larger down payments allow the Enterprises to offer more affordable pricing on loans to lower-income borrowers, who tend to have lower credit scores and less money for down payments. This approach is consistent with the Enterprises' charters, which expressly contemplate that the Enterprises may earn a lesser economic return on mortgage activities for lower-income borrowers.

How price increases are implemented among various credit risk populations will lead to different outcomes. In one scenario, Fannie Mae could attempt to maintain its current pricing in the affordable segment (including very-low income, low-income, and first-time homebuyer acquisitions) by raising pricing on lower-credit-risk loans beyond what is needed to support their estimated risk.

In this scenario, however, Fannie Mae could face adverse selection, as lenders may receive more attractive prices for these loans from other market participants or may choose to hold these loans in their own portfolios. Fannie Mae may find it necessary to increase pricing on affordable segment loans in order to achieve the same overall 10% return target. For example, if the guaranty fee increases on lower-risk loans resulted in a 30% reduction to Fannie Mae's acquisition volumes for such loans, guaranty fees on affordable segment loans might need to increase by approximately 10 bps, on average, over 2019 prices, in addition to the price increase imposed on the non-affordable segments.[8]

In a contrasting scenario, Fannie Mae could raise pricing on all loans to target the same return. This scenario presents less risk of adverse selection on lower-risk loans, but the guaranty fee increases would be steepest for affordable segment borrowers, at more than two times the rate of

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[7] Estimate is based on Fannie Mae single-family loan acquisitions from 1Q19 to 3Q19. The 10% return assumption used for this estimate is consistent with average return expectations of private shareholders in large, capital intensive financial institutions. See Congressional Budget Office, Effects of Recapitalizing Fannie Mae and Freddie Mac Through Administrative Actions, at 9-11 (Aug. 2020) (using 8-12% range for investors' required return on Enterprise stock), available at: https://www.cbo.gov/system/files/2020-08/56496-GSE.pdf.
[8] Estimate is based on Fannie Mae single-family loan acquisitions from 1Q19 to 3Q19. Affordable segment loans represented approximately 30% of acquisitions during this period.

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the other segments. With either scenario, the burdens of higher, less risk-sensitive capital requirements, may fall on the borrowers least able to afford them.

Fannie Mae believes that the Proposed Rule could also impact pricing for multifamily loans that support low- and moderate-income rental housing. In particular, the proposed treatment of loans with a government subsidy could necessitate pronounced guaranty fee increases for these loans despite very low historical loss experience.

The final capital framework should facilitate a responsible end to conservatorship

Fannie Mae believes the clarity afforded by a well-crafted and well-calibrated capital framework would facilitate the process of attracting loss-bearing private-sector capital, which is a crucial step toward ending conservatorship. Such a capital framework would strengthen the market's confidence in the Enterprises' ability to support mortgage markets through the economic cycle and fulfill other mission-related expectations while also significantly informing assessments of the attractiveness of an investment in each Enterprise. The success of any private-sector capital raise would depend on investors' confidence that the capital framework enables and promotes the Enterprises' post-conservatorship viability.

To assess viability, investors will require (i) clarity on the amount of required capital through the cycle, including regulatory and management buffers, (ii) alignment between capital requirements and the risks the Enterprises face, (iii) a measured and achievable transitional arrangement to reach full capitalization, and (iv) confidence in the stability of the regulatory capital framework over time. The implementation of appropriately designed and calibrated capital requirements that are phased in over time would facilitate Fannie Mae's ability to obtain loss-bearing, private-sector capital by informing investors' expectations of Fannie Mae's ability to earn reasonable economic returns over the near-, medium-, and long-term.

The Proposed Rule raises two concerns from an investor perspective. First, it could require Fannie Mae to hold significantly more capital than the amount of estimated stress losses (e.g., based on DFAST severely adverse scenario stress test results). Second, Fannie Mae's existing portfolio was composed and priced based on a different capital framework, and the timeline for the existing portfolio to turn over would delay Fannie Mae's ability to generate returns consistent with operating as a private-sector, shareholder-owned company. The current, historically low interest rate environment has resulted in peak single-family refinance volumes, limiting expectations for future refinancing activity and thereby extending the expected life of the current portfolio.

Recommended Changes

Fannie Mae offers the following recommendations to balance the Enterprises' pursuit of their housing mission and their path toward operating as private-sector, shareholder-owned companies, while operating in a safe and sound manner. Key recommendations include:

- Eliminate the 15% minimum risk weight floor on mortgage exposures.
- Align the Stability Capital Buffer with the capital surcharge applicable to U.S. global systemically important banks ("GSIBs").
- Adjust the capital treatment of CRT to better reflect the risk-mitigating benefits of these transactions and the risk retained by the Enterprises.
- Reduce the procyclicality of capital requirements for both single-family and multifamily loans.
- Provide a specific transition timeline that facilitates exit from conservatorship and investment of loss-bearing private-sector capital.

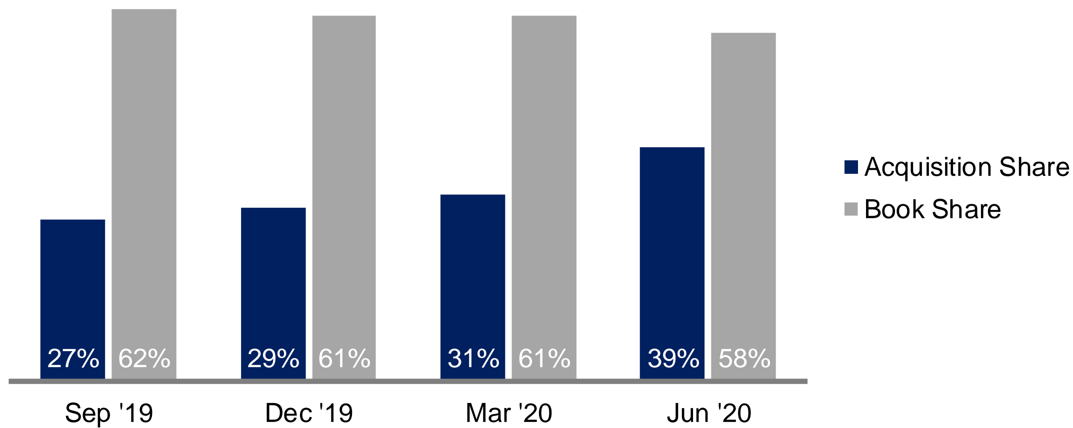
Fannie Mae also recommends various other changes that it believes will enhance the framework as a whole. Fannie Mae believes that the Proposed Rule may require it to hold significantly more capital than indicated by FHFA's published estimates due to likely management buffers and reduced use of CRT. Fannie Mae's recommendations, if adopted by FHFA, would have the effect of reducing, in relation to the Proposed Rule, the total amount of capital that the Enterprises are required to maintain to a level more consistent with the stated estimates. Fannie Mae believes the overall framework's resulting capital requirements, complemented by an appropriately calibrated leverage-based backstop, would provide for an amount of capital sufficient to ensure that each Enterprise operates in a safe and sound manner, while supporting the ability to fulfill its mission.

A. Recommendations to align capital requirements with risk and create a framework better enabling the Enterprises to support their housing mission

1. Eliminate the minimum adjusted risk weight floor on mortgage exposures

The Proposed Rule would retain the general framework from the 2018 Proposal for both single-family and multifamily mortgage exposures but would introduce a 15% minimum risk weight floor. Fannie Mae believes this proposed floor would substantially reduce the risk sensitivity of risk-based capital requirements and significantly increase the overall amount of capital required to be held against mortgage exposures. For example, for its single-family business, Fannie Mae estimates that the floor would apply to approximately two-thirds of single-family loans outstanding and approximately 60% of unpaid principal balance ("UPB"), as demonstrated in Figure 1. In addition, with respect to newly acquired loans that have not had an opportunity to season and experience home price appreciation, Fannie Mae observes that approximately one-third of loans and 30% of UPB would be subject to the floor at acquisition.

Figure 1: Single-Family Monthly Acquisition and Book Share Subject to Proposed Floor



Note: Data is based on UPB. Percentages reflect the portion of monthly acquisitions (Acquisition share) or total UPB outstanding (Book Share) estimated to have been subject to the risk weight floor for the quarter.

Fannie Mae views the elimination of the proposed risk weight floor as an essential step to ensuring that the capital framework is appropriately calibrated to risk given the proportion of exposures that would be subject to the floor. By delinking capital requirements from the risk attributes of exposures for a significant portion of Fannie Mae's lowest-risk single-family business, the proposed risk weight floor would discount relevant risk attributes. This would make it more difficult for Fannie Mae to support affordable mortgage lending to low- and moderate-income borrowers.

The preamble to the Proposed Rule states that the 15% risk weight floor is intended to address the overall calibration of the capital requirements, based on crisis-era capital depletion, to compensate for model and data risks, and to align with the standardized credit-risk capital requirements for banking organizations. The proposed risk weight floor is not, in Fannie Mae's view, necessary to achieve an appropriate calibration or to address model and data risks. In addition, Fannie Mae does not believe a comparison to the standardized bank capital requirements warrants the imposition of a risk weight floor in the capital requirements for the Enterprises.

First, FHFA states in the preamble to the Proposed Rule that without the proposed minimum risk weight floor, "Fannie Mae's estimated single-family credit risk capital requirement would have exceeded its crisis-era single-family cumulative capital losses, but by a relatively small amount."[9] While this may be the case, Fannie Mae respectfully cautions against using the experience of the last crisis, in isolation, to set a risk-insensitive floor. To do so would, in Fannie Mae's view, not sufficiently credit the significant post-crisis enhancements in regulatory oversight and risk management practices at the Enterprises. The Housing and Economic Recovery Act of 2008 made FHFA a stronger and more independent regulatory agency than its predecessor, with bank regulator-like powers and authorities. As a consequence of FHFA's regulatory and supervisory work, there have been substantive and durable enhancements to the way Fannie Mae does

[9] 85 FR 39319.

business, including its liquidity and credit risk management policies and practices. Moreover, the proposed floor would not appropriately reflect the significant evolution in mortgage market practices and regulation, including greater consumer protection, ability to repay standards, and improved loss-mitigation options that increase successful outcomes for borrowers who have experienced hardships. Business practices, regulatory requirements, and supervisory guidance have constrained certain high-risk loan attributes, protecting against a reversion to higher-risk, pre-crisis-era business practices. Accordingly, Fannie Mae recommends that the risk weight floor be removed in order to correlate the proposed capital requirements more closely to actual risk.

Second, the preamble to the Proposed Rule states that "a risk weight floor is appropriate to mitigate certain risks and limitations associated with the underlying historical data and models used to calibrate the credit risk capital requirements."[10] Fannie Mae's analysis indicates, however, that the 15% risk weight floor is not actually consistent with the distribution or contribution of either realized or modeled stress losses from loans that would be subject to the floor. Fannie Mae believes that applying the grids in the Proposed Rule, without the risk weight floor, would be sufficient to cover realized stress losses and would appropriately recognize differences in the risk associated with different exposures. Consistent with the proposed risk weight grids, realized stress losses for loans that would be subject to the proposed 15% risk weight floor are the lowest for the highest quality loans and rise as credit risk increases.

As shown in Figure 2a, loans expected to be subject to the risk weight floor at acquisition represented 33% of acquisitions from 2000 through early 2019 and experienced total losses of just 5 bps of the UPB, which represented less than 2% of total realized losses over that time period. This data illustrates two important points. First, the risk weight floor would have the greatest impact on loans with the lowest historical loss rates. Second, the realized loss rates on the loans expected to be subject to the risk weight floor decline consistently as credit quality – measured by the same attributes that determine the capital requirements – improves. The relationship between the implied risk weights at acquisition and the realized loss rates suggests these loans exhibit very little "model risk."

More specifically, historical loss rates decline consistently with the implied risk weights at acquisition, as shown in Figure 2a and Figure 2b, which provide greater detail on cumulative losses by implied risk weight at acquisition.[11]

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[10] 85 FR 39319.

[11] The implied risk weights are based on the currently applicable conservator capital framework and are representative of the loan-level capital requirements in the Proposed Rule.

Figure 2a: Loss Rates by Risk Weight Category vs. UPB Relative to %Total UPB: Acquisitions from 2000-February 2019[11]

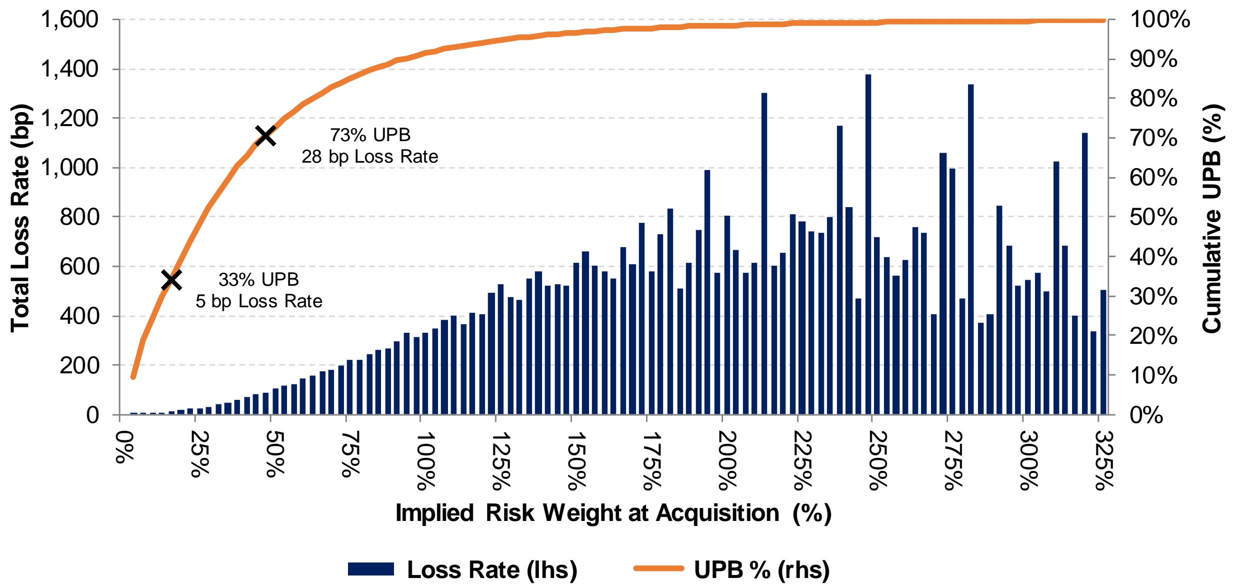
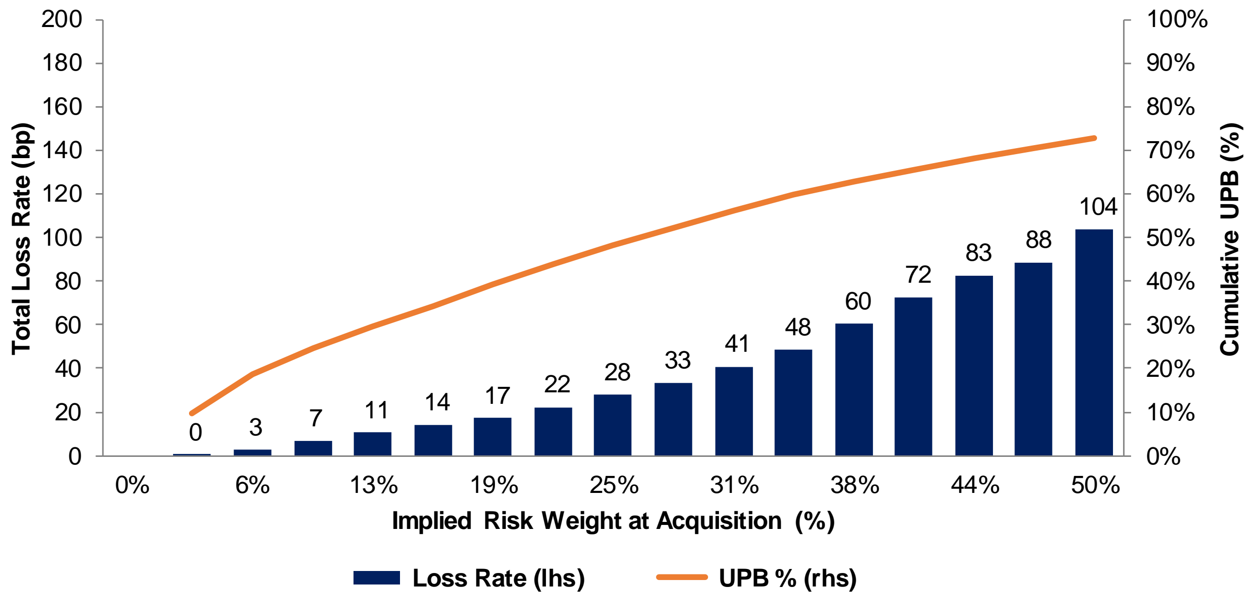


Figure 2b: Loss Rates by Risk Weight Category vs. UPB Relative to %Total UPB: Acquisitions from 2000-February 2019[11]



The preamble to the Proposed Rule also states that the risk weight floor is intended to mitigate "potentially material risks" that are not addressed in the proposed risk-based capital measures, such as "uninsured or underinsured losses from flooding, earthquakes, or other natural disasters or radiological or biological hazards."[12] Although these risks may warrant consideration in capital

[12] 85 FR 39320.

adequacy standards, Fannie Mae believes that a 15% risk weight floor is not well suited to address them. The proposed floor would apply to the lowest-risk loans and without regard to whether and the degree to which they are actually exposed to these risks. Fannie Mae believes the conservativism inherent in the overall design and calibration of the proposed capital requirements, including the buffers and leverage backstop, is sufficient to address those risks. To the extent these risks are specifically reflected in capital requirements, Fannie Mae believes it should be through the introduction of additional grids and multipliers, based on a quantification of these risks, instead of a floor affecting only the lowest-risk loans.

Third, FHFA also states in the preamble to the Proposed Rule that it views the proposed 15% risk weight floor as appropriate in light of a comparison to the standardized credit-risk capital requirements for residential mortgage exposures in the U.S. bank capital framework and the revised Basel III capital framework. The standardized approach in the Proposed Rule is, however, fundamentally different from the standardized approach in the U.S. bank capital framework and revised Basel III capital framework. The framework in the Proposed Rule is significantly more risk sensitive than either bank capital framework, with grids and multipliers addressing risk attributes at a level of granularity unparalleled in the bank capital frameworks. Accordingly, Fannie Mae believes there is not a need for the imposition of a risk weight floor in order to make the capital framework for the Enterprises more comparable to those for banks.

2. Assess the relationship between risk-based capital and leverage ratio requirements so that leverage capital requirements can serve their intended role as a backstop

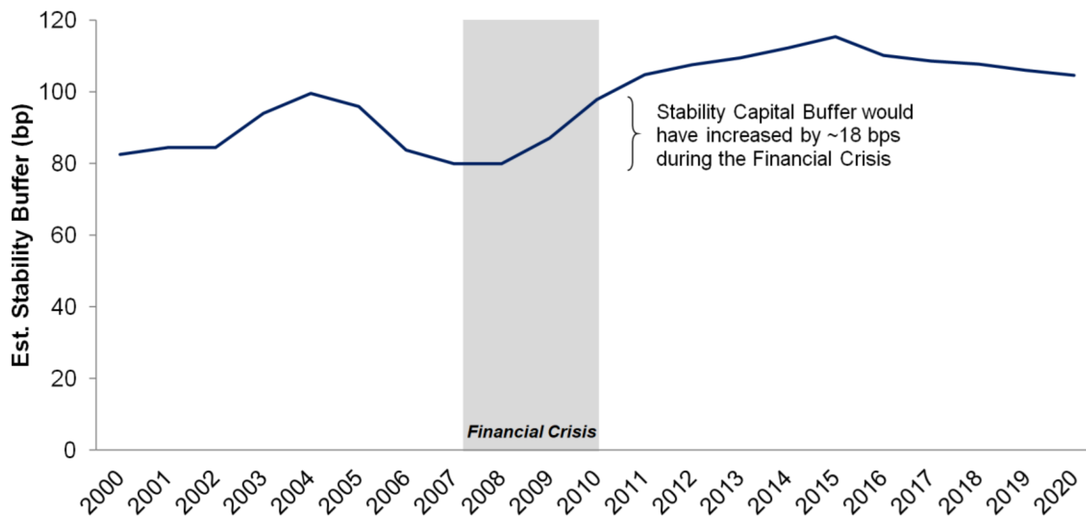
Fannie Mae supports the leverage ratio as a simple, credible, and transparent backstop to risk-based capital requirements. In this crucial complementary role, the leverage ratio will enable the final Enterprise capital framework to better support the Enterprises' housing mission, the responsible end to conservatorship, and safety and soundness objectives. In this letter, Fannie Mae recommends a number of changes to the risk-based capital requirements in the Proposed Rule. If these recommendations are implemented, they would make the risk-based capital requirements more risk sensitive. They would also affect the overall calibration of risk-based capital requirements and the amount of capital the Enterprises must maintain to satisfy those requirements. Accordingly, as FHFA evaluates Fannie Mae's recommendations, FHFA should consider whether any changes to the proposed leverage ratio requirements would be appropriate so they can serve their intended role as a backstop. Given the importance of the relationship between risk-based capital and leverage ratio requirements, Fannie Mae also recommends that FHFA continue to assess the relative calibration of these two types of requirements as it finalizes the Enterprise capital framework.

3. Align the Stability Capital Buffer with the U.S. GSIB surcharge to reduce procyclicality

Fannie Mae supports the Proposed Rule's overall framework of including minimum requirements and buffers, along with specifying graduated consequences of breaching the buffers. However, in Fannie Mae's view, the proposed Stability Capital Buffer would increase the procyclicality of the Proposed Rule, which could impede the ability of the Enterprises to fulfill their mission. Specifically,

by linking the Stability Capital Buffer to the Enterprises' share of mortgage debt outstanding ("MDO"), the Proposed Rule would increase capital requirements at the point in the economic cycle when other financial institutions are shrinking their participation in the mortgage market and the Enterprises' ability to provide liquidity and stabilize the market is most critical. As illustrated in Figure 3, the increase in Fannie Mae's share of MDO during the Financial Crisis would have driven an 18 bps increase in the Stability Capital Buffer, which, when applied to Fannie Mae's adjusted total assets, would have increased Fannie Mae's capital requirements by $6 billion. Further, procyclicality embedded within the Stability Capital Buffer could require the Enterprises to maintain substantial management buffers in excess of the regulatory minimums and buffers in order to ensure their ability to meet heightened capital requirements during adverse economic conditions and avoid being forced to raise capital at those times.

Figure 3: Fannie Mae's Estimated Stability Capital Buffer Over Time



Questions 18-22 of the preamble to the Proposed Rule request comment on an alternative formulation of the Stability Capital Buffer based on the GSIB surcharge applicable to the largest U.S. banking organizations.[13] Fannie Mae supports the alignment of the Enterprise Stability Capital Buffer with the capital surcharge applicable to U.S. GSIBs. Aligning the Enterprise Stability Capital Buffer with the U.S. GSIB surcharge framework would reduce the expected procyclicality of the requirement, use a developed framework that is well understood by market participants, and result in the application of a consistent framework for capital surcharges to mitigate systemic risk applying across U.S. financial institutions.

If FHFA aligns the Stability Capital Buffer with the U.S. GSIB surcharge methodology, Fannie Mae recommends adhering to the Federal Reserve Board's U.S. GSIB surcharge framework as currently in effect, instead of applying a version of the framework that excludes certain indicators and grosses up the impact of those that are not excluded. The alternative presented in the

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[13] 85 FR 39301.

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Proposed Rule would exclude the substitutability and cross-jurisdictional indicators and gross up the GSIB score for the Enterprises based on their scores for the other indicators. FHFA explained that it proposed to exclude certain indicators because they may not be robust indicators of risk to the U.S. housing market.[14] Although not all indicators are relevant to the Enterprises' business models and activities, this does not warrant completely excluding certain indicators; all the indicators in the U.S. GSIB surcharge framework are also relevant, to varying degrees, to U.S. banking organizations depending on their business models and activities. FHFA should use the U.S. GSIB surcharge framework as it applies to U.S. GSIBs, in recognition of the fact that it is an established methodology to determine the additional capital requirements for financial institutions of systemic significance.

Excluding certain indicators and grossing up for those not excluded would effectively create an entirely new framework for the Enterprises, which would reduce comparability to the U.S. bank capital framework, increase complexity, and potentially have a number of unintended consequences. With regard to complexity and unintended consequences, Fannie Mae notes, for example, that the gross-up framework reflected in the Proposed Rule would not work as intended because the U.S. GSIB framework uses different indicators to determine surcharges under its two methodologies. Method 1 of the U.S. GSIB framework uses indicators for size, interconnectedness, substitutability, complexity, and cross-jurisdictional activity.[15] Method 2 replaces substitutability with weighted short-term wholesale funding.[16] The proposed gross-up methodology in the Proposed Rule would exclude substitutability and cross-jurisdictional activity indicators and gross up the resulting score by a factor of 0.6.[17] This would not, however, work for Method 2, as Method 2 already excludes substitutability. Accordingly, adjustments to the U.S. GSIB surcharge framework should be limited to the scaling factor specified in the alternative construction of section 1240.400(b) that translates from the U.S. GSIB surcharge, expressed as a percentage of risk-weighted assets, to the Enterprise's buffers, expressed as a percentage of adjusted total assets.[18]

Figure 4 compares the Stability Capital Buffer under two calculation approaches, by comparison to the U.S. GSIBs. As the GSIB surcharge applies to risk-weighted assets, Fannie Mae's Stability Capital Buffer has been expressed as a percentage of its risk-weighted assets to maintain comparability. As proposed, Fannie Mae's Stability Capital Buffer would be 3.7% of its risk-weighted assets. Fannie Mae estimates that its GSIB surcharge, computed according to the recommendation above would be 3.0%, which is equivalent to approximately 85 bps of Fannie Mae's adjusted total assets. By comparison, the eight U.S. GSIBs have GSIB surcharges ranging from 1.0% to 3.5%, reflecting their overall size as well as the systemic risk indicators most applicable to their business models. At this level, Fannie Mae would be subject to a GSIB surcharge nearly as high as the highest surcharge faced by any U.S. GSIB. The diversity of

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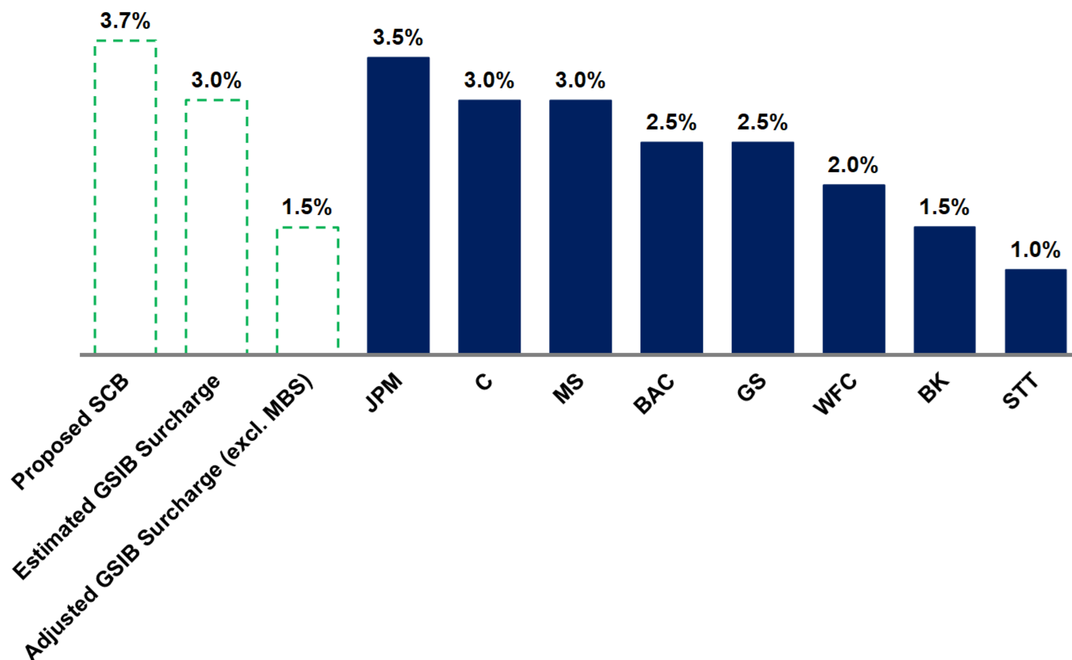
[14] 85 FR 39301.
[15] 12 CFR 217.404.
[16] 12 CFR 217.405.
[17] Proposed section 1240.400(b); 85 FR 39405-06.
[18] 85 FR 39405-06.

business models and systemic risk exposures faced by the U.S. GSIBs demonstrates the strength of this approach.

In estimating the GSIB surcharge, Fannie Mae has included Enterprise mortgage-backed security ("MBS") outstanding in Securities Outstanding within the Interconnectedness category of systemic indicators. As the ultimate path to exit from conservatorship and that path's treatment of Enterprise MBS remains uncertain, Fannie Mae recommends that FHFA review whether the exclusion of MBS from the Securities Outstanding indicator may be appropriate based on the systemic risk attributes of Enterprise MBS. The Adjusted GSIB Surcharge represented in Figure 4 is an estimate of Fannie Mae's GSIB surcharge excluding the MBS outstanding from this calculation.

Figure 4: Estimated Fannie Mae GSIB Surcharge and U.S. GSIB Comparison
(Expressed as percentage of Risk-Weighted Assets)



Note: "Proposed SCB" represents Fannie Mae's Stability Capital Buffer as a percentage of risk-weighted assets under the Proposed Rule; "Estimated GSIB Surcharge" represents Fannie Mae's estimated surcharge (Method 2); "Adjusted GSIB Surcharge" represents Fannie Mae's estimated surcharge (Method 2) with the MBS outstanding excluded. Fannie Mae estimates based on indicators as of Q2 2020.

4. Implement the Stress Capital Buffer as proposed and defer implementation of a dynamic buffer

The Proposed Rule would implement a Stress Capital Buffer that builds on the Going-Concern Buffer from the 2018 Proposal. Fannie Mae believes that the proposed Stress Capital Buffer is appropriately sized relative to other buffer requirements for banks and in the context of stress test results. Recent severely adverse DFAST losses translate to roughly 1.5% of risk-weighted assets,

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within the range of stress testing results for a representative group of large U.S. banks.[19] The calibration of 0.75% of adjusted total assets corresponds to a buffer equivalent to approximately 2.5% of risk-weighted assets, consistent with the floor established for bank holding companies' stress capital buffers, and lower than the average stress capital buffers for that group of large U.S. banks (3.0%).

Questions 10 and 11 of the preamble to the Proposed Rule request comment on the potential for dynamic adjustments to the Stress Capital Buffer requirement, to reflect potential changes in FHFA's stress testing regime, or changes in the Enterprises' exposures.[20] Although a dynamically determined Stress Capital Buffer may be appropriate when FHFA's supervisory stress testing capabilities evolve, such a change should be proposed at a later time, on the basis of greater experience with those capabilities. This approach would be similar to how the Federal Reserve Board implemented its stress capital buffer, established on the basis of its supervisory stress tests, many years after introducing its supervisory stress testing framework.

5. Refine the treatment of forbearances and loan modifications to promote prudent servicing practices

The lookup grids in the Proposed Rule generally differentiate base risk weights to take into account the current and recent delinquency status of a loan. Based on historical performance data, Fannie Mae recommends three adjustments to this framework that would better align the risk characteristics of a loan with its capital treatment, while also encouraging servicers to offer more effective and appropriate payment solutions to borrowers.

Determine risk weights for loans subject to non-payment reducing programs based on the grid for non-modified re-performing loans ("RPLs")

Repayment plans and payment deferral programs are typically available to borrowers who recover after a temporary hardship. Neither of these programs reduces a borrower's payment and, in fact, the borrower resumes the contractual monthly payment. As a result, Fannie Mae believes that such plans and programs should not be treated as modifications,[21] and that loans subject to such plans and programs should be assigned risk weights based on the grid for non-modified RPLs. This treatment would reflect the credit risk associated with borrowers who need this type of assistance, and better reflect the temporary nature of their hardships. Pursuant to FHFA's direction, both Enterprises have implemented a waterfall that prioritizes the loss mitigation solutions that their servicers offer to borrowers. Within this waterfall, repayment plans and payment deferral are offered to borrowers before loan modification. The application of this waterfall has resulted in loss mitigation solutions that are more appropriate to a borrower's circumstances and that have better

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[19] Universal banks that are GSIBs (BAC, C, JPM, and WFC) and super-regional banks that are not GSIBs (COF, PNC, TFC, and USB).
[20] 85 FR 39297.
[21] Further evidence that loans with repayment plans and deferred payments are not modified loans is that, unlike modified loans, those loans may remain in Fannie Mae's MBS trusts for tax purposes because the borrower resumes his or her contractual monthly payments.

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credit outcomes for both borrowers and the Enterprises. The lookup grids should not discourage repayment plans and payment deferral programs by ascribing high risk weights to these outcomes.

Revise the treatment of loans that receive disaster forbearances

Historically, forbearance programs related to hurricanes and other natural disasters typically result in better post-forbearance credit outcomes than forbearance programs not related to disasters. Therefore, Fannie Mae recommends that non-performing loans ("NPLs") in forbearance as a result of a disaster, consistent with the applicable Enterprise's Disaster Policy, receive a risk weight that is lower than would otherwise result from classifying the loans as NPLs during the period of forbearance.

In addition, questions 37 and 38 of the preamble to the Proposed Rule request comment on the treatment of loans delinquent under COVID-19 forbearance plans, and the classification of such loans as modified RPLs due to modifications, repayment plans and other solutions following a COVID-19 forbearance plan.[22] Fannie Mae believes COVID-19 related forbearances should be treated as "disaster-related forbearances" for purposes of the capital framework. Furthermore, following the COVID-19 forbearance period, Fannie Mae recommends that the post-forbearance capital treatment be based on the pre-forbearance status of the loan and the resolution of the forbearance.

Under this approach, a loan for which the borrower was performing prior to entering forbearance due to disaster and on which the borrower later becomes current or otherwise resumes the contractual payment amount upon exiting forbearance would be treated as a performing loan rather than as a re-performing loan. A loan for which the borrower requires a payment-reducing modification, on the other hand, would be treated as a modified re-performing loan.

Fannie Mae recommends that a loan in forbearance due to a disaster be ascribed a risk weight at an elevated rate to reflect heightened risk, but not at the full NPL rate, to reflect the probability of a favorable outcome. Following the forbearance period, loans would have risk weights that reflect the pre-forbearance performance as well as the resolution of the forbearance. This approach would prevent both a temporary increase in capital requirements and a persistently high capital charge for loans that typically return to performing status within the agreed-upon period following the disaster. This treatment would be consistent with observed outcomes in prior disaster events and reflect the heightened risks as well as the temporary nature of these events. The aggregate effect of these changes is summarized in Figure 5.

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[22] 85 FR 39307.

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Figure 5: Summary of Proposed Response to Forbearance Treatment

		Proposed Rule	Fannie Mae's *Proposed Response*	
			Disaster-related Forbearances *(including COVID-19)*	**All other loans**
Forbearance Delinquency		100% of NPL Capital Charge	40% of NPL Capital Charge*	100% of NPL Capital Charge
Post Forbearance Resolution	**Reinstatement**	Non-Modified RPL	Pre-Forbearance treatment **	Non-Modified RPL
	Repayment Plan	Modified RPL	Pre-Forbearance treatment**	Non-Modified RPL
	Payment *Deferral or other non-payment reducing solutions*	Modified RPL	Pre-Forbearance treatment**	Non-Modified RPL
	Other Modifications	Modified RPL	Modified RPL	Modified RPL
	Defaults	NPL	NPL	NPL

* *Capital set as higher of pre-forbearance capital treatment and 40% of NPL capital grid.*

** *Pre-forbearance treatment means that the loan will be considered as having been current during the forbearance period while evaluating a loan's performance history before and after the forbearance.*

Revise the treatment of modifications over time

Under the Proposed Rule, loan modifications would be subject to higher capital requirements for the remaining life of the loan. Although higher capital requirements are appropriate to reflect the higher risk profile of borrowers who have needed loan modifications, Fannie Mae believes it would be appropriate to reclassify modified loans as performing loans after they have remained current for five years post modification. Based on historical data, there is minimal difference in performance for a loan that has never been delinquent, was previously delinquent or was previously modified so long as it has been performing for five years after the last delinquency or modification. Modifications are an essential tool for Fannie Mae to keep borrowers in their homes. Avoiding permanently higher capital requirements for modified loans would better enable the Enterprises to support the housing market and facilitate keeping borrowers in their homes, which affects not only individual borrowers and their families but potentially their neighborhood as well.

6. Establish a multiplier for multifamily mortgage exposures for targeted affordable housing properties

FHFA notes in the preamble to the Proposed Rule that it was eliminating the risk multiplier for multifamily mortgage exposures with a government subsidy "to avoid instances where a loan with a limited subsidy would qualify for the risk multiplier."[23] Fannie Mae agrees that not all affordable housing loans should benefit from a favorable risk multiplier. In Fannie Mae's view, however, loans supported by certain programs that consistently outperform otherwise comparable loans should still receive the benefit, allowing Fannie Mae to offer pricing and credit structures that enable Fannie Mae to earn reasonable returns while supporting mission-driven business. Eliminating the government subsidy multiplier for this set of loans would result in a capital requirement above what

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[23] 85 FR 39327.

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is needed to support the associated risk and affect pricing, making it more expensive to provide liquidity for properties serving the neediest tenants and potentially reducing funding for property maintenance and tenant care. It could also result in fewer transactions that are feasible economically, potentially increasing the existing supply gap for affordable rental housing.[24]

Accordingly, to facilitate Fannie Mae's affordable housing mission while better reflecting historical loss performance, Fannie Mae recommends retaining a government subsidy multiplier, but limiting its application to the following mortgage exposures that are demonstrably lower risk: (1) properties with income and rent restrictions pursuant to the Low Income Housing Tax Credit ("LIHTC") program; (2) properties benefiting from other federal, state, and local affordable housing programs with the percentage of units and depth of affordability substantially equivalent to the LIHTC program (e.g., 20% of the units affordable at 50% area median income ("AMI") or 40% of the units affordable at 60% AMI); and (3) properties benefiting from project-based rental assistance programs under Section 8 of the Housing Act of 1937.[25] Based on Fannie Mae's statistical analysis, Fannie Mae further recommends a multiplier value of 0.70x for this population.

7. Revise market risk calculations and spread shocks for multifamily whole loans

Question 92 of the preamble to Proposed Rule asks, "Are the point and spread measures used to determine spread risk capital requirements for certain covered positions appropriately calibrated for that purpose?"[26] Fannie Mae believes that the spread shock prescribed for multifamily whole loans may not be appropriately calibrated relative to the spread shock prescribed for multifamily MBS.

The total risk for a multifamily whole loan is the sum of its credit risk and its market risk. Fannie Mae believes that the credit risk metrics in the Proposed Rule reasonably reflect the risk associated with these exposures, subject to Fannie Mae's recommendations elsewhere in this letter. Further, Fannie Mae believes that the prescribed 100 bps spread shock for measuring the market risk of multifamily MBS is appropriate based on the historical data. However, Fannie Mae believes the applicable spread shock for multifamily whole loans should be increased to reflect the observation

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[24] Even with Fannie Mae supporting the affordable rental market today, more than half of renter households are cost-burdened, paying at least 30% of income for housing and utilities, and one in four are severely cost-burdened, spending more than 50% of their incomes for housing. See Joint Center for Housing Studies of Harvard University, "America's Rental Housing 2020" page 26, Appendix Table W-2.

[25] Commonly referred to as "targeted affordable housing," mortgage financing for projects utilizing these programs forms a critical component of Fannie Mae's mission business. Often, the rent and income limitations associated with these programs, which provide renters assurance of continuing affordability through recorded regulatory or use restriction agreements, are more highly skewed towards deeper affordability than unrestricted, naturally occurring affordable properties (e.g., 30-60% AMI limits), even in extremely high cost markets. For example, project-based Section 8 renters are typically those most in need of affordable housing because they do not even meet the income standards in LIHTC properties or other similarly restricted properties. Separately, many LIHTC and Section 8 properties are age-restricted and are sometimes reserved for veterans, people with disabilities, or those who were formerly homeless.

[26] 85 FR 39341.

that whole loans are materially less liquid than Enterprise-guaranteed MBS due primarily to the lack of a credit guaranty and not being in a readily tradable form.

The preamble to the Proposed Rule states that increasing the market risk capital requirement for multifamily whole loans through the imposition of a 100 bps spread shock would result in a total risk-based capital requirement for multifamily whole loans that exceeds the total risk-based capital requirement for multifamily MBS "to an undesirable degree."[27] Fannie Mae believes that if each risk component—i.e., market risk (at 100 bps) and credit risk—is appropriately calibrated, there is no basis to conclude that their sum is inappropriate. On the contrary, Fannie Mae is concerned that the 15 bps spread shock prescribed for multifamily whole loans would materially understate the underlying market risk attributable to these exposures.

Moreover, the disparate treatment of multifamily whole loans and MBS under the Proposed Rule is inconsistent with the U.S. Treasury's recommendation that regulations for securitized products should reflect the "capital required to hold the same disaggregated underlying assets" and "neither encourage nor discourage funding through securitization."[28]

Fannie Mae therefore recommends increasing the spread shock for multifamily whole loans to an amount not less than the 100 bps spread shock prescribed for Enterprise-guaranteed multifamily MBS.

8. Revise the calculation of the multifamily lender counterparty haircut

The Proposed Rule permits an Enterprise to reduce its uncollateralized exposure by one year of estimated future servicing revenue if the Enterprise has a contractual claim to the at-risk servicing rights.[29] Fannie Mae believes that recognition of one year of servicing revenue materially understates the value of at-risk servicing rights, thereby increasing the applicable counterparty haircut and accordingly the applicable capital requirements.

Virtually all loans in Fannie Mae's multifamily portfolio have prepayment protection in the form of yield maintenance that remains in place until six months prior to loan maturity and that is shared between the lender and Fannie Mae based on their respective cash flows. This makes the average life of a multifamily loan, and the value of the at-risk servicing rights, relatively stable in different interest rate environments. As of Q4 2019, the average remaining life of the loans in Fannie Mae's multifamily portfolio was approximately six years, while the stressed valuation of the at-risk servicing rights was 3.4x the average annual servicing fee. This is corroborated by similar lender and third-party valuations.

Accordingly, Fannie Mae recommends that FHFA permit an Enterprise to reduce its uncollateralized exposure by three years of future servicing revenue. This still-conservative multiple would better recognize the true value of at-risk servicing rights to Fannie Mae.

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[27] 85 FR 39341.
[28] See U.S. Department of the Treasury, A Financial System That Creates Economic Opportunities: Capital Markets (October 2017), available at: https://www.treasury.gov/press-center/press-releases/Documents/A-Financial-System-Capital-Markets-FINAL-FINAL.pdf.
[29] 85 FR 39336.

B. Recommendations to reduce procyclicality

The Proposed Rule contains revisions to the 2018 Proposal that are designed to reduce procyclicality. However, aspects of the Proposed Rule remain procyclical, and would likely require the Enterprises to maintain substantial management buffers to meet capital requirements throughout the entire economic cycle. In addition to Fannie Mae's recommendation to align the Stability Capital Buffer with the U.S. GSIB surcharge, below Fannie Mae offers two further recommendations to reduce procyclicality.

1. Enhance the single-family countercyclical adjustment by narrowing the collar and using the national house price index consistently

The Proposed Rule introduces a countercyclical adjustment to loan-level single-family mark-to-market LTVs ("MTMLTVs") that would apply when national housing prices are 5% above or below the inflation-adjusted long-term trend. While designed to reduce procyclical effects under the 2018 Proposal, this banded MTMLTV approach would continue to result in increases in the Enterprises' capital requirements during housing market downturns, subject to limitations. These increases in capital requirements would occur when the Enterprises' ability to generate sufficient earnings to support the requirements may be declining and new sources of capital may be unavailable. Conversely, in periods of housing price appreciation, especially before home prices breach the upper collar, capital requirements would decline, potentially reducing incentives for the Enterprises to build capital cushions when they are best positioned to do so.

Fannie Mae estimates that in a severely adverse stress environment, such as defined in the 2020 DFAST scenario, Fannie Mae's risk-based capital requirement under the Proposed Rule would increase by approximately $13 billion over three quarters for Fannie Mae's single-family portfolio, notwithstanding the proposed countercyclical adjustment to MTMLTV. To ensure adequate capital in such a scenario, maintain a constant presence in the housing market, and avoid being forced to raise capital in times of stress, Fannie Mae would need to hold an appreciable management buffer during normal economic environments. The increase in capital to build a management buffer might therefore require corresponding increases from today's guaranty fee pricing in order to maintain the same return on equity.

To address these concerns, Fannie Mae recommends that FHFA maintain the general structure of the framework set forth in the Proposed Rule but implement the following enhancements:

1. Narrow the collar from 5% above and below real long-term trend to 0%; and
2. Calculate MTMLTV using a national house price index ("HPI") rather than state-level home prices.

The first recommendation, to narrow the collar included in the proposed countercyclical adjustment to 0%, would determine capital based on the long-term trend in housing price appreciation, without variability associated with housing price appreciation that is above or below trend. This would increase the regulatory capital required when housing prices are above trend, as is the case today, but would also increase the stability of the requirements, allowing for a smaller management buffer. As a result, housing markets that see greater appreciation would generally require more capital than would be required under the Proposed Rule, while markets where housing prices grow more

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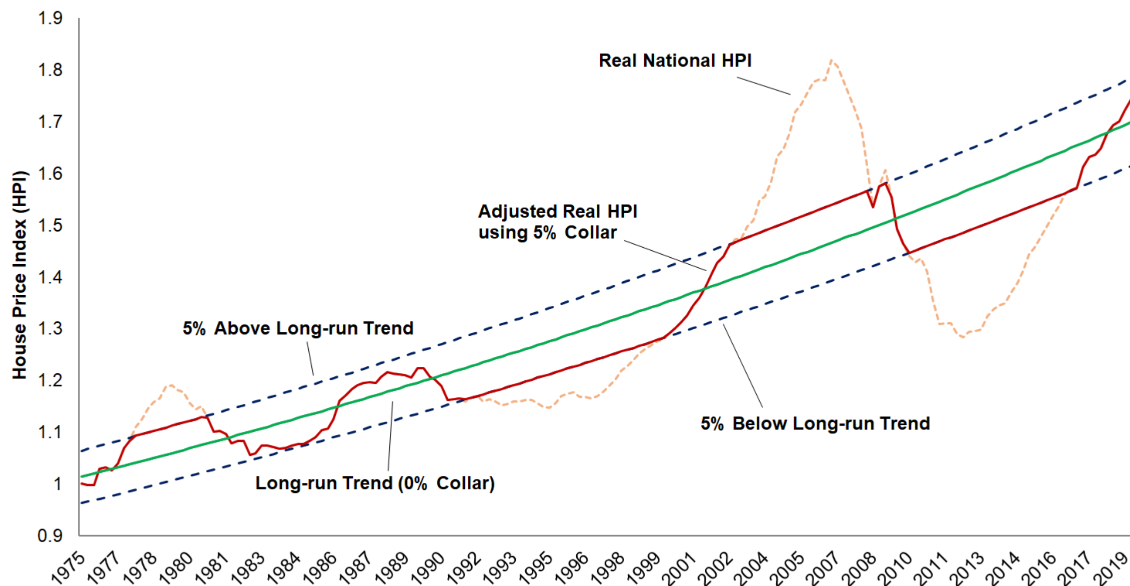
slowly than the long-term trend would require relatively less capital. This approach would also reduce the capital variability associated with housing price changes within the 5% corridor established by the proposed countercyclical adjustment, bringing greater transparency to the level of capital requirements and reducing management buffer needs.

Figure 6 illustrates the effect of the 5% collar in limiting effects of home price increases and the associated MTMLTV decreases in periods of high home price growth. For example, between 2003 and 2007, the proposed countercyclical adjustment would have prevented real home price growth in excess of the long-run trend from reducing MTMLTVs. Instead, real home price growth would have been constrained by the upper 5% collar. In this case, the difference between the real home price (orange line) and the adjusted real home price (red line) represents the substantial reduction in capital volatility, and an increase in required capital, arising from the Proposed Rule versus the 2018 Rule. Fannie Mae's proposal of a 0% collar would further reduce the effect of housing price changes on capital volatility associated with MTMLTV adjustments, and would result in an increase in capital requirements when real housing prices are rising faster than the long-run trend.

Figure 6: Real HPI and FHFA's Long Run Growth



The second recommendation, to base MTMLTV on a national HPI, creates better alignment between the determination of the MTMLTV used to calibrate capital requirements and the reference index for the countercyclical adjustment. The Proposed Rule would rely on state-level home prices to calculate MTMLTV and national home prices to determine the countercyclical adjustment. Accordingly, the Proposed Rule would potentially result in under-adjustment to MTMLTVs for high volatility home price regions and over-adjustment for low volatility home price regions. For example, in Q4 2006, real home prices in high volatility California were 54% over the long-run state-level trend compared to 24% at the national level. Applying the Proposed Rule to calculate adjusted MTMLTV for seasoned loans would result in lower adjusted MTMLTV values, as the impact of the comparatively large home price increase prior to 2006 built into the MTMLTV would dominate the impact of the national home price based MTMLTV adjustment. As a result,

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despite the much higher real home price versus long-run trend, the capital requirement for loans in California would remain comparatively low, as adjusted MTMLTV values would reflect the faster regional home price growth but would be adjusted by the slower national home price growth. This could potentially lead to misallocation of capital and contribute to procyclicality in periods and regions where the national adjustment may be insufficient to offset the accumulated effects on MTMLTV of state-level deviations from long-run trend. Accordingly, Fannie Mae recommends calculating MTMLTV using a national HPI rather than state-level home prices to create better alignment and to avoid such potential misallocation of capital.

Taken together, these recommendations would enhance the countercyclical adjustment in the Proposed Rule framework by entirely removing the influence of real home price deviations from the long-term trend, while also fostering price stability in the housing markets.

2. Introduce a multifamily procyclicality adjustment

Unlike the single-family countercyclical adjustment, the proposed multifamily credit risk capital framework does not include an adjustment to mitigate the procyclicality of the aggregate risk-based capital requirements, although FHFA notes in the preamble to the Proposed Rule that it sees "considerable merit to a countercyclical or similar adjustment".[30] Question 57 in the preamble requests comment on options and available data for a countercyclical adjustment to the credit risk capital requirements for multifamily mortgage exposures.

In response to the 2018 Proposal, Fannie Mae recommended the use of origination values for debt-service-coverage ratio and LTV to prevent procyclical capital requirements. While this approach is still an acceptable alternative, Fannie Mae now recommends instead the approach developed by the DUS Advisory Council and submitted to FHFA in response to the 2018 Proposal.[31] Fannie Mae also considered several other approaches to address this procyclicality concern, including some that would be more in line with FHFA's single-family proposal on this topic, but Fannie Mae believes the methodology proposed by the DUS Advisory Council in 2018 has the most benefits with the fewest drawbacks.

The DUS Advisory Council approach would base capital requirements on stressed values of net operating income ("NOI") and property value, based on the economic shocks underlying the multifamily capital grids, i.e., a 15% NOI decline and a 35% property value decline. Capital requirements would then be adjusted to reflect current market conditions, but with adjustments based on the onset of market-wide stress. In a rising market, capital requirements would continue to reflect full stress impacts, while in a stressed market the capital requirements would be adjusted by a factor calibrated to reflect the portion of the stress event already realized to avoid double-counting the impact of stress. This approach would result in capital levels being calibrated to full stress scenarios and would differentiate between idiosyncratic deterioration of a given property, which would result in elevated capital requirements for that loan, and declines caused by overall

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[30] 85 FR 39324.
[31] See https://www.fhfa.gov/SupervisionRegulation/Rules/Pages/Comment-Detail.aspx?CommentId=15284. The DUS Advisory Council represents the DUS Lender firms that do business with Fannie Mae.

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market conditions, as informed by third party indices. A more detailed discussion of the approach is included in the 2018 DUS Advisory Council comment letter.

C. Recommendations to revise the capital treatment of CRT to better reflect its risk-mitigating benefits

The Enterprises have developed a variety of approaches to actively manage credit risk exposures, including CRT and Fannie Mae's DUS programs. These programs help manage aggregate risk exposures and offer market-based insights into the pricing of Fannie Mae's credit risk. However, under the Proposed Rule, CRT transactions would not be economically attractive, limiting the range of options and tools currently available to the Enterprises to manage their credit risk.

With the proposed capital treatment of CRTs, loan-level primary mortgage insurance is foremost among the remaining risk management options. Loan-level mortgage insurance is an essential risk management tool for the Enterprises, although it is currently used primarily to satisfy the charter requirement for Enterprise acquisition of high LTV loans. By disincentivizing the Enterprises from using CRT transactions and accessing the broader insurance and private investor industries, the Proposed Rule would increase the Enterprises' dependency on private mortgage insurers that already represent the Enterprises' largest counterparty exposure and which would also increase Enterprise exposure to wrong-way risk. Furthermore, private mortgage insurers also use risk transfer similar to CRT to manage their own credit risk exposure and their capital requirements under the Enterprises' Private Mortgage Insurer Eligibility Requirements ("PMIERs"). As the PMIERs' treatment of CRT generally seeks to align to the applicable Enterprise capital requirements for CRT, the Proposed Rule could indirectly limit risk management options for the entire housing finance system.

In developing the Proposed Rule, FHFA based refinements to the CRT assessment framework on identified concerns related to the "effectiveness of CRT in transferring credit risk on the underlying exposures."[32] The Proposed Rule seeks to encourage Enterprises to "avoid overreliance on CRT and … maintain at least enough equity capital to support new originations during a period of financial stress."[33] In this section Fannie Mae proposes alternative approaches to address FHFA's stated concerns while better aligning capital treatment with risk exposure.

1. Eliminate 10% risk weight floor for CRT and increase Overall Effectiveness Adjustments

The Enterprises have developed CRT markets to distribute credit risk to private markets, while maintaining the existing to-be-announced ("TBA") market and preserving borrowing and loss mitigation options for lenders and borrowers. As of June 2020, 40% of Fannie Mae's total single-family credit guaranty portfolio is covered by credit risk transfer, and 29% of multifamily exposures are covered by multifamily back-end CRT in addition to front-end DUS loss-sharing arrangements.

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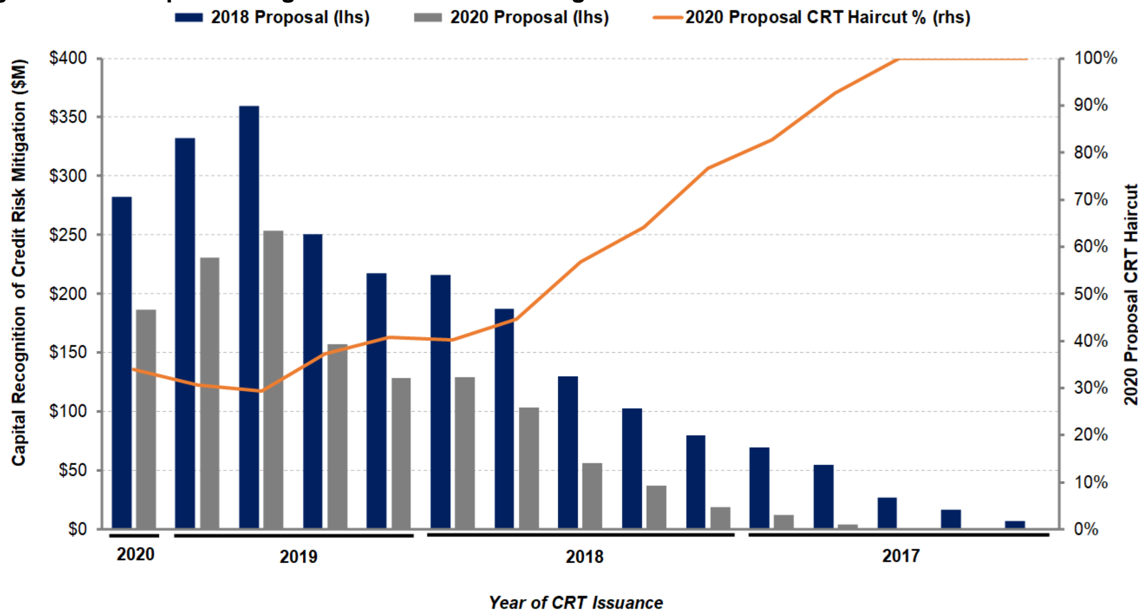
[32] 85 FR 39330.
[33] 85 FR 39330.

The Proposed Rule intends to "balanc[e] the safety and soundness benefits of CRT against the potential safety and soundness, mission, and housing market stability risks that might be posed by CRT."[34] FHFA notes concerns that render CRT inferior to equity capital, including model and operational risk, lack of fungibility, and potential loss of coverage for loans that refinance out of a pool when new CRT coverage may be unavailable. The Proposed Rule's treatment of CRT contains provisions to address these concerns, including operational requirements, a 10% minimum risk weight on retained CRT exposures, and haircuts related to specific risks to the effectiveness of CRT in achieving risk transfer.

The Proposed Rule would provide significantly less capital recognition of credit risk mitigation for CRT relative to the 2018 Proposal. Based on Fannie Mae's analysis, the initial capital recognition of credit risk mitigation for new CRT transactions would be reduced by roughly 30%, and would decrease further as the deals season, resulting in an overall decline in recognition of credit risk mitigation of approximately 50% across Fannie Mae's outstanding CRT transactions. The framework in the Proposed Rule also would have the effect of shortening the time period during which credit risk mitigation is recognized, as shown in Figure 7. When combined with the binding nature of the leverage ratio and regulatory buffers that do not take the benefits of CRT into account, the Proposed Rule could make the CRT market uneconomical for Fannie Mae under many circumstances. If the CRT market becomes uneconomical, Fannie Mae could reduce or cease further CRT issuance, eliminating an important tool for managing Fannie Mae's credit risk and receiving market feedback on the quality and pricing of its mortgage acquisitions.

Figure 7: CRT Capital Recognition of Credit Risk Mitigation



The CRT tranche responsible for losses in excess of stress losses accounts for a large portion of the total proposed capital charge on CRT transactions and is the primary driver of the reduction in

[34] 85 FR 39330.

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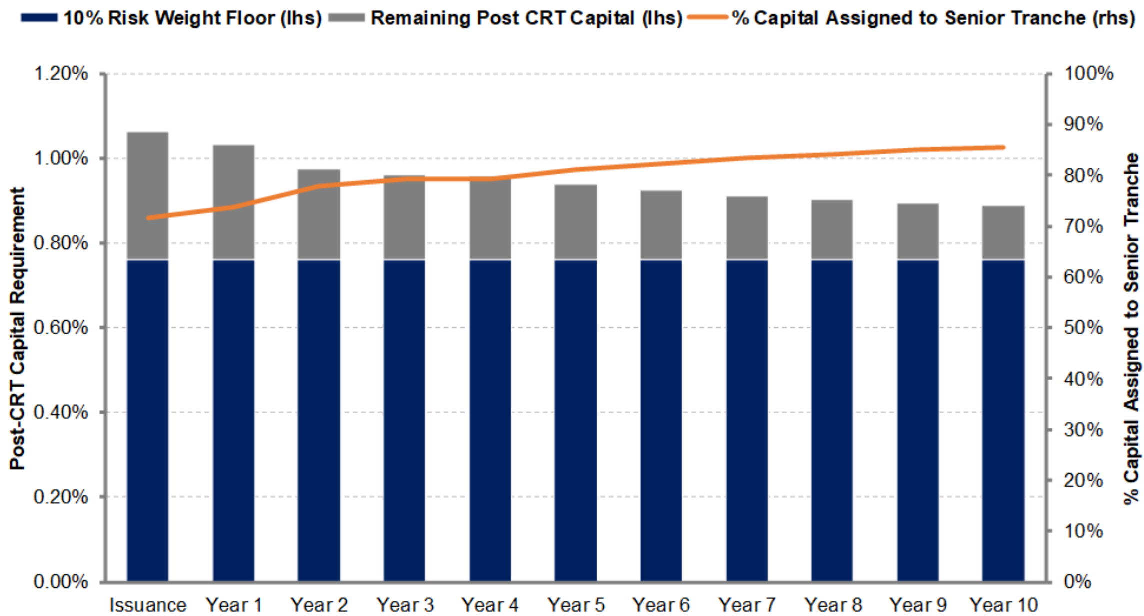
recognized credit risk mitigation, despite bearing minimal credit risk, as seen in Figure 8. Credit risk retained in a securitization becomes progressively more remote from unexpected losses as the coverage position increases. The 10% minimum risk weight would assign a significant amount of capital to the entire position retained in excess of stress losses, regardless of how remote that risk position is. As an additional unintended consequence, this approach may require less capital for a structure that retains more risk. Specifically, a structure in which Fannie Mae retains risk beginning below modeled stress losses may require less capital than one that attaches at or above stress losses.

Figure 8: Composition of Post-CRT Capital Charge



Note: Illustrative composition of capital required over time after Fannie Mae issues a CRT deal; example forecast based on historical CRT eligible population data from Q3 2017- Q2 2020 which was extrapolated to estimate a ten-year timeframe.

To better tailor the treatment of CRT to the specific risks identified, Fannie Mae recommends eliminating the 10% minimum risk weight on retained CRT tranches and, for single-family CRT, increasing the overall effectiveness adjustment (“OEA”). Increasing the OEA better aligns the treatment of CRT with the specific model and operational concerns posed by CRT, as well as the concern that covered loans may refinance out of a pool when new CRT coverage is unavailable. As refinancing risk is substantially lower for multifamily loans, which are generally not prepayable without a premium, it would be appropriate to maintain the OEA on back-end multifamily CRT at 10% while still eliminating the 10% minimum risk weight.

Fannie Mae believes that its recommended changes would address FHFA’s stated concerns while better aligning the capital treatment of CRT to the risk-mitigating characteristics of the structures. In this regard, Fannie Mae notes that the High Level Forum on the Capital Markets Union (established

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by the European Commission) included in its Final Report[35] a recommendation to reduce the risk weight floor applicable to the retained senior tranche of a synthetic securitization to be more in line with the risk profile of such tranche. By achieving better alignment of risk weights to the risk of each tranche, Fannie Mae's recommendation would reduce the rapid deterioration of capital recognition of credit risk mitigation that occurs as the underlying mortgage loans pay down and thereby help to maintain CRT as an economical tool for managing the Enterprises' credit risk.

2. DUS loss-sharing should be treated as loan-level risk sharing

Fannie Mae's multifamily business has relied on its longstanding and successful DUS program over multiple economic cycles to finance quality, sustainable, and affordable rental housing. Through its loan-level loss-sharing feature, which typically requires the originating DUS lender to share roughly one-third of any credit loss on a loan, DUS directly aligns the incentives between Fannie Mae and the lender, helping to ensure loan quality and reducing potential hazard on loans delivered to it. The combination of this loss-sharing feature with strong credit standards has driven Fannie Mae's historically low delinquency rates and excellent credit performance through all economic cycles. During the 2008 housing crisis, the multifamily serious delinquency rate peaked at 0.80% for Fannie Mae's entire portfolio and just 0.60% for Fannie Mae's DUS portfolio,[36] compared to nearly 17% for the overall commercial MBS market. In addition, DUS loans acquired since 2000 have experienced less than 20 bps of cumulative net credit losses.

Although the multifamily DUS program mitigates credit risk via loan-level risk sharing, the Proposed Rule would treat Fannie Mae's multifamily DUS lender loss-sharing program consistent with pool-level, structured, front-end CRT.[37] In Fannie Mae's view, this treatment would not accurately reflect the risk profile associated with these transactions, as it would impose adjustments for deal complexity and operational effectiveness that are not appropriate for the DUS loss-sharing structure.

Specifically, DUS loss-sharing coverage is less complex than pool-level CRT as it applies at loan-level, is in place at acquisition and covers the entire loan term. Further, it does not have material default caps. Moreover, multifamily loans do not have the same refinancing risk as single-family loans due to prepayment premiums generally required to be paid upon prepayment of multifamily and other commercial loans. If multifamily loans are refinanced, they are redelivered to Fannie Mae with DUS loss-sharing in place. The DUS structure has proven durable, remaining available even in stressed market and economic conditions (where the Enterprises' market share typically increases as other market participants retrench), providing Fannie Mae credit risk protection even when capital markets are volatile. By treating DUS loss-sharing as a pool-level credit risk mitigant, the

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[35] A New Vision for Europe's Capital Markets: Final Report of the High Level Forum on the Capital Markets Union, p.53 (June 2020), available at: ec.europa.eu/info/sites/info/files/business_economy_euro/growth_and_investment/documents/200610-cmu-high-level-forum-final-report_en.pdf.
[36] Note that seriously delinquent rates have reached slightly higher levels during the recent COVID-19 crisis as of Q2 2020 due to forbearances granted.
[37] 85 FR 39329.

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increased capital requirements for multifamily loans may require a substantial change to this program, which may result in higher guaranty fees and reduced availability of financing.

Fannie Mae recommends that capital for DUS transactions be assessed consistently with the treatment of Credit Enhancement Multipliers described in the preamble to the Proposed Rule[38] rather than under the CRT framework. Risk-weight calculations, subject to a counterparty haircut based on the value of the lender servicing revenue and pledged collateral (both of which Fannie Mae has the rights to), should be determined under the same rules applicable to single-family loan-level loss-sharing, to which the DUS program bears far more similarities than back-end CRT structures.[39]

Despite Fannie Mae's recommendation above, should DUS loss-sharing remain subject to CRT treatment in the final Enterprise capital framework, Fannie Mae recommends an adjustment to the loss-sharing effectiveness adjustment ("LSEA"). Under the Proposed Rule, the LSEA percentage would be calculated for DUS loss-sharing at the loan-level, while lender collateral would be determined at the lender-level, which could result in a lender having loans with different LSEAs. Fannie Mae recommends that the LSEA percentage be calculated at the lender- or servicer-level, using aggregated stress losses across all loans for a given servicer, their loss-sharing obligation, their collateral, and their counterparty haircut. With this approach, the lender-level LSEA percentage could be applied to all the loans associated with that lender, which would better align the credit-risk capital treatment with Fannie Mae's rights to the collateral. This approach would also achieve greater consistency in calculations.

Finally, if the rule retains a risk weight floor for DUS loss-sharing arrangements, Fannie Mae recommends that the 15% minimum risk weight floor be applied to gross credit risk, prior to application of credit enhancements. Otherwise, the risk weight floor would distort loss-sharing agreements and their associated haircuts.

3. Revise CRT eligibility criteria to permit longstanding and well-established redemption features

Section 1240.41(c) of the Proposed Rule would introduce a variety of operational eligibility criteria for a CRT. These criteria are modeled on the operational criteria for synthetic securitizations in the U.S. bank capital framework. For example, the criteria would require that any clean-up calls relating to the CRT be "eligible clean-up calls." This requirement is intended to ensure the durability of risk transfer, specifically that the sponsor of a securitization cannot undermine the effectiveness of the risk transfer by providing implicit support to investors in a stressful scenario. However, the definition of "eligible clean-up call" in proposed Section 1240.2, which is only exercisable when 10% or less of the reference pool is outstanding, would make it unclear whether certain types of well-established optional redemption provisions in the existing Enterprise CRT market would be allowable.

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[38] 85 FR 39312-39319.
[39] 85 FR 39312.

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The limitation on eligible clean-up calls could be read to circumscribe the use of optional redemption features that provide significant value to Fannie Mae and that do not have the potential to undermine the durability of risk transfer or give rise to risks of implicit support. Fannie Mae believes that the other operational criteria, in particular the requirement that a CRT be "an eligible CRT structure" approved by FHFA,[40] would ensure appropriate oversight by FHFA over transaction features such as the optional redemptions, while avoiding potential unintended consequences, such as preventing the recognition of established CRT structures previously approved by FHFA. Moreover, relying on FHFA's review and approval instead of prescriptive criteria developed for a different capital regime would align with the existing practice whereby CRT structures have been developed in consultation with FHFA to transfer mortgage credit risk effectively. Accordingly, Fannie Mae recommends that FHFA remove proposed Section 1240.41(c)(4) from the final Enterprise capital framework so the limitation on call options is not part of the operational criteria for CRT.

4. Base loss timing effectiveness adjustment on weighted average maturity

The Proposed Rule implements a loss timing effectiveness adjustment ("LTEA") to the multifamily CRT framework to account for the mismatch (if any) between lifetime losses on the multifamily loan exposures and the term of coverage for the CRT.[41] However, unlike the single-family CRT framework, the Proposed Rule does not provide a time factor grid for multifamily CRT. Rather, in a multifamily loan pool containing loans with different maturities, the multifamily loan with the longest maturity is used to determine the contractual maturity of the entire pool for purposes of calculating the LTEA.[42]

Using the loan with the longest contractual maturity to determine the contractual maturity of the loan pool would disproportionally reduce the capital recognition of credit risk mitigation for multifamily CRT when there is even one loan with a large term mismatch. For example, for a ten-year multifamily CRT covering a pool with 99 ten-year loans and one 30-year loan, the recognized credit risk mitigation on the entire pool would be reduced by two-thirds under the approach set out in the Proposed Rule because of the timing mismatch on the one 30-year loan. This could have the effect of inhibiting Fannie Mae's ability to secure CRT coverage on affordable loans, which commonly have terms longer than ten years.

To address this, Fannie Mae recommends that the LTEA used in the multifamily CRT framework be determined using the average maturity of the loan pool, weighted by the net capital requirement applicable to the loans in the pool. In Fannie Mae's view, this would better reflect the true risk associated with the timing mismatch while also giving more weight to longer term loans that typically have higher capital requirements.

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[40] Proposed Section 1240.41(c)(1); 85 FR 39391. Fannie Mae notes further that the Proposed Rule would prohibit the inclusion of provisions in CRT structures that might undermine the effectiveness of the durability of risk transfer. Proposed Section 1240.41(c)(2); 85 FR 39391.
[41] 85 FR 39335.
[42] Proposed Section 1240.44(b)(9)(i)(B); 85 FR 39395.

5. Subject the capital treatment of prior CRT issuances to transition provisions

Fannie Mae recommends that FHFA retain the capital treatment in the 2018 Proposal for CRT transactions executed prior to the release of the Proposed Rule on May 20, 2020, for an extended transition period of ten years. Although longer than the general five-year transition period Fannie Mae recommends to phase-in capital requirements (see Section E below), maintaining the treatment for pre-May 2020 CRTs for ten years would be appropriate for a number of reasons. First, Fannie Mae believes its approach of generally implementing the revised CRT framework on a prospective basis would better reflect the Enterprises' and FHFA's expectations at the time these CRTs were entered into. Second, CRT is an effective but expensive form of credit risk mitigation. CRT generally is economical only if the credit-risk mitigation is recognized for capital purposes. If the capital treatment at the time of execution is not maintained, the costs of credit protection would rise significantly to a level that would have effectively precluded use of CRT, if these costs had been known at that time. Third, pre-May 2020 CRTs were developed in consultation with FHFA, and Fannie Mae believes the prior oversight of FHFA was sufficient to achieve FHFA's supervisory objectives with regard to the use and capital recognition of these CRTs. Fourth, the ability to recognize pre-May 2020 CRTs as credit risk mitigants would substantially decline over ten years as the transactions season, and the declining recognition of CRTs due to seasoning would effectively phase out the capital recognition of credit risk mitigation associated with these transactions.

D. Recommendation to review the capital treatment of cross guaranties to facilitate the ongoing efficient operation of the UMBS market

The Proposed Rule would assign a 20% risk weight to uniform mortgage-backed securities ("UMBS") guaranteed by the other Enterprise, consistent with the risk weight assigned to exposures to the Enterprises under the U.S. bank capital framework. These exposures also increase adjusted total assets, thereby increasing leverage and prescribed capital conservation buffer amount requirements. As a result, exposures that support the UMBS market would attract a minimum 355 bps of capital, including minimum requirements and buffers. Guaranties associated with the UMBS program are growing rapidly as the UMBS market matures, rising from $29 billion as of Q3 2019 to $101 billion as of Q2 2020. As the market has grown, Fannie Mae's capital requirements associated with these guaranties have increased accordingly, from approximately $1 billion to $4 billion. Assuming cross guaranties continue to grow in support of the UMBS market, capital requirements for UMBS cross guaranties would increase to become a meaningful portion of Fannie Mae's aggregate capital requirements.

This increase in required capital could significantly impact the UMBS market. UMBS is a common security issued and guaranteed by either Fannie Mae or Freddie Mac and backed by fixed-rate single-family mortgage loans. The single security initiative, launched in June 2019, was created to develop a combined Fannie Mae and Freddie Mac TBA market that is more liquid, fungible and efficient than the markets that previously existed. The Enterprises' guaranties of commingled UMBS are critical to the fungibility of these securities. Without revision, this new capital charge may require the Enterprises to increase the fees charged for guarantying the performance of each other's credit guaranty, with implications for the pricing of mortgage credit, or to decline to provide

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these guaranties, impeding investors' ability to commingle Fannie Mae and Freddie Mac UMBS in second-level re-securitizations and thereby reducing the fungibility of these securities.

If UMBS are not seen as fungible, the market may differentiate between Fannie Mae issuances and Freddie Mac issuances, undermining the purpose of the single security initiative. The increased costs and decreased liquidity would be borne by dealers and investors (including the Federal Reserve, which is one of the largest investors in this market) and ultimately by mortgage borrowers via higher mortgage rates.

Fannie Mae therefore recommends that FHFA reconsider the capital treatment of UMBS cross guaranties relative to the potential implications for the UMBS market.

E. Recommendations to include a specific transition period

A specific and well-tailored transition framework would facilitate the responsible end of conservatorship by providing clarity for the Enterprises and market participants, including prospective investors, on the path and timeline for the Enterprises to satisfy the new capital requirements, including applicable buffers.

Fannie Mae appreciates FHFA's specific acknowledgment in the preamble to the Proposed Rule that the Enterprises may not be able to comply with the minimum requirements or buffers at the time of exit from conservatorship.[43] Under proposed Section 1240.4, the compliance date for an Enterprise would be the later of one year from publication of the final capital rule in the Federal Register and the date of termination of conservatorship for that Enterprise. In addition, FHFA could provide a later compliance date based on an assessment of capital market conditions and the feasibility of the Enterprise's capital restoration plan. FHFA should retain the provisions that preserve its discretion to extend compliance timelines beyond those set forth in the rule. Flexibility is important because, as FHFA notes in the preamble to the Proposed Rule, "the path for transition out of conservatorship and meeting the full capital requirements and buffers is not settled at this time."[44]

Complementing the flexibility in the Proposed Rule with a specific transition period would enhance the Enterprise capital framework. Basel III was agreed upon by the members of the Basel Committee in 2010 and included a detailed schedule of transition arrangements. When the U.S. banking agencies adopted their Basel III-based capital requirements in 2013, they included a variety of transition provisions that called for the new capital requirements to be phased in gradually over a period of many years. Of most relevance, the revised capital requirements generally took effect over the course of 2014 and 2015 and the risk-based buffer requirements were phased-in from 2016 through 2019.[45] In addition, the new Supplementary Leverage Ratio ("SLR") and Enhanced SLR ("eSLR") requirements did not become applicable until 2018.[46]

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[43] 85 FR 39356.
[44] 85 FR 39356.
[45] 12 CFR 217.1(f) and 217.300(a).
[46] 12 CFR 217.1(f).

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Fannie Mae recommends that FHFA take a similar approach for transition in the final Enterprise capital framework. In addition to retaining the proposed discretionary provisions described above, FHFA should include a specific timeline during which the minimum requirements and buffers would be phased in. Fannie Mae believes a minimum five-year transition period would be appropriate, as such a period would be consistent with the phase-in application of the Basel III-based capital requirements for banks. Moreover, a five-year transition period would provide time for much of the guaranty portfolio to turn over, which would facilitate the repricing of Fannie Mae's portfolio while meeting applicable capital requirements and generating returns consistent with operating as a private-sector, shareholder-owned company.

Fannie Mae also supports the inclusion of the reservation of authority set forth in Section 1240.1(d) of the Proposed Rule, which provides FHFA with additional flexibility in the application of the Enterprises' capital requirements that could be used to assist in the transition of the Enterprises out of conservatorship. For example, FHFA may determine that a transaction undertaken in connection with a capital restoration plan may be treated as contributing to regulatory capital even if there are aspects of the transaction that would not satisfy all the criteria in the Proposed Rule, with FHFA's determination based on the loss-absorbing and other relevant characteristics of the transaction. Similarly, FHFA may determine that it is appropriate to adjust the risk-weighted asset amount or adjusted total asset amount for a particular exposure or group of exposures, on a temporary or permanent basis, should an Enterprise segregate legacy exposures or otherwise enter into a transaction that significantly reduces, or potentially eliminates, risks relating to legacy exposures. Any such determination not only would provide FHFA greater flexibility in overseeing a responsible end to conservatorship, it also would provide potential investors greater clarity regarding an Enterprise's ability to execute its capital restoration plan and achieve full recapitalization.

Fannie Mae's recommended approach of complementing the flexibility in the Proposed Rule with specificity, modeled on the implementation of the Basel III-based bank capital requirements, would support the responsible end of the conservatorships. Flexibility would allow FHFA to tailor the application of the new capital framework to the particular circumstances surrounding exit while a specific timeline would assist the Enterprises in developing and implementing a capital restoration plan. Moreover, Fannie Mae expects potential investors to assess the Enterprises' post-conservatorship viability based on, among other things, whether there is a clear and achievable path toward satisfying capital requirements. Specifying a transition period in the final Enterprise capital framework would allow investors to have more informed expectations of the Enterprises' ability to earn reasonable economic returns over the near-, medium-, and long-term.

F. Recommendations related to the use of Advanced Approaches

1. Defer Advanced Approaches requirements for further study and specifications

The Proposed Rule would include Advanced Approaches requirements, with the stated intent of "ensur[ing] that each Enterprise continues to enhance its risk management system" and informing

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potential future changes to the standardized approach.[47] In contrast with the Advanced Approaches requirements implemented as part of the U.S. bank capital framework, the Proposed Rule lacks the specificity needed to assess whether Advanced Approaches requirements can be effectively used to manage the risk of Fannie Mae's business. The inclusion of the Advanced Approaches requirements also runs counter to the direction of the banking industry regulatory capital framework. For example, the Basel Committee's finalization of Basel III reforms acknowledges the shortcomings of internal ratings-based approaches (the basis for the Advanced Approaches in the U.S. bank capital framework), including excessive complexity, lack of comparability and lack of robustness in modeling certain asset classes.[48]

Fannie Mae's capabilities to identify, assess, and analyze credit risk, market risk, and operational risk are core competencies that are critical to Fannie Mae's execution of its strategy. Ongoing investment in modeling and analytical capabilities advance its understanding and management of risk and improve business decisions. These investments align with the stated intentions of the proposed Advanced Approaches.

Fannie Mae recommends that the Advanced Approaches requirements in Subpart E of the Proposed Rule be deferred and re-proposed at a later date. As part of any re-proposal and prior to implementation, FHFA should provide, at a minimum, greater clarity around the specific expectations for Advanced Approaches models, implementation timeline and parallel runs. Deferring the applicability of Advanced Approaches would also allow FHFA to consider the U.S. banking regulators' forthcoming implementation of Basel III revisions.[49] Even with the proposed delay to Subpart E, FHFA could monitor the robustness of the standardized approach's lookup grids and multipliers as market conditions evolve through its ongoing supervisory activities.

2. Base operational risk calculations on the Basel standardized approach to align with the current Basel Committee methodology

The Proposed Rule would establish an operational risk capital requirement based on the advanced measurement approach ("AMA") of the U.S. bank capital framework. Question 101 requests comment as to whether "FHFA should consider other approaches to calculating operational risk capital requirements (e.g., the Basel standardized approach)."

The AMA in the U.S. bank capital framework has a number of weaknesses in establishing capital requirements for operational risk. Operational risk capital requirements are subject to wide variations based on tail event data and models which include qualitative fitting of distributions that may need to be re-calibrated whenever deviations occur in the tail data. Further, as large historical

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[47] 85 FR 39339.
[48] See https://www.bis.org/bcbs/publ/d424_hlsummary.pdf, p. 5.
[49] The U.S. banking agencies have indicated that they are considering replacing the existing models-based Advanced Approaches with the revised standardized approaches in the Basel Committee framework. See 84 FR 59230, at 59249.

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losses age, they may fall off the data set, resulting in a significant decrease in capital requirements that may not reflect the actual operational risk exposures.

Under the current Basel Committee framework, the Basel III standardized measurement approach ("SMA") is scheduled for implementation by January 1, 2023.[50] The published guidance for SMA[51] does not require internal models or many of the data elements required in the AMA, apart from internal loss events. Adopting a framework based on the Basel III SMA would enhance comparability between the operational risk capital requirements for the Enterprises. Further, the capital calculation would be more transparent, allowing management, FHFA, and other market participants, including prospective investors, to have more confidence in their ability to determine capital requirements accurately. This aligns to the broader trend among banking supervisors globally that are generally reducing their reliance on internal model-based approaches, as discussed in the Basel III Revisions.[52]

If FHFA adopts an SMA-aligned approach to operational risk capital, the AMA data elements(Internal Loss Events, External Loss Data, Scenario Analysis, Business Environment, and Internal Control Factors) would remain relevant because they are core components of the Operational Risk Management Framework, would remain required by FHFA advisory bulletin 2014-02, and would continue to be codified in Fannie Mae's Operational Risk Policy. Fannie Mae would continue to improve upon each as part of its strategy and transformation regardless of capital calculation methodology. Just as the Advanced Approaches are not necessary to ensure appropriate investment in risk-management and modeling capabilities, implementation of the operational risk AMA is not necessary to promote appropriate operational risk measurement and management practices.

Fannie Mae further recommends that, if the final Enterprise capital framework retains the models-based AMA, FHFA should provide for removal of the operational risk capital floor following a parallel run of the implemented operational risk requirements. This would allow FHFA to maintain supervisory control over operational risk measurement while providing incentives for ongoing investment in operational risk measurement capabilities.

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[50] See https://www.bis.org/press/p200327.htm.
[51] Basel Committee on Banking Supervision, 2016. Consultative Document: Standardized Measurement Approach for operational risk.
[52] Basel Committee on Banking Supervision, 2016, section 2.6. Consultative Document: Standardized Measurement Approach for operational risk.

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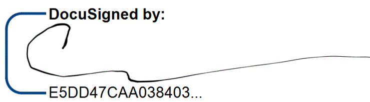
Conclusion

Fannie Mae appreciates the opportunity to comment on the Proposed Rule. The recommended changes in this comment letter are intended to further FHFA's stated objectives. With these changes, Fannie Mae believes that FHFA could achieve an effective capital framework that would appropriately balance the objectives of (1) tailoring capital requirements to risks, (2) supporting the Enterprises' mission, and (3) supporting the responsible end of conservatorship. If you have questions or require additional clarifications or supporting analysis, please contact the undersigned at celeste_brown@fanniemae.com. In addition, Fannie Mae would be pleased to facilitate a discussion of this response.

Sincerely,



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