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Regarding:

Rulemaking/Notice Number: RIN-2590-AA95

Title: Enterprise Regulatory Capital Framework

Good Day,

My name is Glen Bradford. I own preferred shares in Fannie Mae and Freddie Mac. I encourage you to pay special attention to Fannie Mae and Freddie Mac's commentary:

<https://www.fhfa.gov//SupervisionRegulation/Rules/Pages/Comment-Detail.aspx?CommentId=15605>

<https://www.fhfa.gov//SupervisionRegulation/Rules/Pages/Comment-Detail.aspx?CommentId=15606>

For starters, both Fannie and Freddie offered suggestions in their comment letters that would make the risk-based standard as currently proposed align more closely with their actual business risks. In summary, the rule as currently proposed basically seems to just jack up capital requirements to as high as possible without regard to the actual business risks. If you look back to the reason Fannie and Freddie were placed into conservatorship to begin with, there was no liquidity issue. If anything there was a potential solvency issue. The real issue at hand was the market for agency mortgage backed securities:

<https://www.ft.com/content/ffd950c4-0d0a-11df-a2dc-00144feabdc0>

Hank Paulson was hearing that Russia and China were going to dump all of their agency mortgage backed securities and roil the market if Treasury didn't step in. If everyone started dumping agency mortgage backed securities, then the great financial crisis of 2008-2009 would have been insurmountably worse for everyone in the world. Let me make sure to not understate the importance of the market for agency mortgage backed securities. Frankly, from the standpoint of US GDP, it would seem that Hank Paulson and Dan Jester made the right decision here in the name of drawing a line in the sand to stabilize the banking system.

Hank Paulson and Dan Jester worked hard to reconstruct the record and decided to use FHFA's discretionary accounting authority to commit accounting fraud against the companies on behalf of Treasury immediately after placing Fannie and Freddie into conservatorship.

Lawsuits were filed and the one against the auditor PwC was settled:

<http://www.glenbradford.com/wp-content/uploads/2016/03/Deloitte-Fannie.pdf>

<https://www.housingwire.com/articles/34280-the-three-card-monte-accounting-of-fannie-freddie-conservatorship/>

The moral to the story here is that the market for agency mortgage backed securities is more important to the United States than anything else. As such, I can understand why Calabria came out and proposed capital requirements so high that Fannie and Freddie are saying that they are going to have to increase guarantee fees in order for things to work out.

I guess at the end of the day, the amount of capital that Fannie and Freddie need is equivalent to the amount required to ensure that the public capital markets don't panic and dump them ubiquitously during any crisis. As such, I think the conversion of the SPSPA's remaining funding commitment into an explicit limited guarantee is very important although it is not technically capital.

Another recent change at FHFA is that Mark Calabria has been going around telling everyone there to follow the law. Up until Calabria became director at FHFA, previous FHFA directors more or less did Treasury's dirty laundry. People like Ed Demarco who came from Treasury to FHFA unilaterally gave all of Fannie and Freddie's money in perpetuity to Treasury for 0 consideration. That is illegal and plaintiffs are winning in court even though the original lower court rulings went in favor of the government. Mario Ugoletti committed perjury in the DC District Court and because he did the government got away with submitting an incomplete administrative record:

[https://gselinks.com/Court\\_Filings/Perry/13-cv-01025-0027-2.pdf](https://gselinks.com/Court_Filings/Perry/13-cv-01025-0027-2.pdf)

Specifically see point 20. So, what you have there is now that case is back in Lamberth's court and someone has to certify a fraudulent trial record. Who wants to do that? That's a damages case now.

So, I guess my point there is if you are working on a capital rule, it's worth noting that the vast majority of the draws during the early years of conservatorship are based on accounting fraud and then their current lack of capital is attributable to government officials breaking the law to keep Fannie and Freddie in conservatorship by enacting the net worth sweep in 2012. In this spirit, when you look at Fannie and Freddie's claims that the current capital rule is too much for existing guarantee fees there is a balance.

Do we want to jack up the cost of home ownership in America or are we willing to consent that 4% capital requirements is beyond overcapitalized and that even that is more than enough capital if you have the government spends more than a decade defrauding the companies in the midst of the greatest housing downturn of our lifetimes so far? Do I think that the existing capital proposal as written sets capital requirements too high? Sure, why not. My argument is that the capital requirements need to be set in such a way that at the very least Fannie and Freddie can raise the necessary money to become and be declared adequately capitalized, otherwise what is the point of capital requirements?

When I look at the main takeaway of conservatorship, aside from FHFA and Treasury's fraud, it has been the jacking up of guarantee fees. This increases the cost of home ownership in America. Is Mark Calabria's claim to fame going to be to jack up those costs even more just to have a beyond overcapitalized government sponsored enterprise? If so, that's his prerogative. Fannie and Freddie have listed reasons why adjustments should be made to the existing capital proposal. Presumably they worked with their underwriters Morgan Stanley and JP Morgan to figure out what works to attract and raise capital. If capital requirements are set too high for any given level of guarantee fees, the companies won't be able to attract and raise the capital necessary to exit conservatorship and this capital requirements exercise would subsequently serve no technical purpose.

If you study solvency issues, these post 2008 jacked up guarantee fees provide a much stronger stream of income to offset impairments and losses than existed previously. In my opinion to illustrate this point, one could even successfully argue that this stronger stream of income could justify lower capital requirements than pre-2008 from this perspective in isolation. I guess my point here is that if Fannie and Freddie are saying they need to increase their guarantee fees to meet this capital requirements proposal from their already practically doubled guarantee fees, the problem is not that their fees are too low. The problem is that your capital requirement is too high.

In the spirit of Mark Calabria's quest to set the capital requirements as high as possible, I again point back to FHFA working with Houlihan, Milbank and Fannie and Freddie along with JP Morgan and Morgan Stanley. The premise would be to all together figure out at the current level of guarantee fees how high you can set capital requirements and still attract private capital to stand in front of the government's soon to be explicit limited guarantee (SPSPA reconstituted). I think that's a crummy perspective but that's the direction things are going and that's what it seems to be is going to happen. This really isn't in line with the actual business risk and I understand that. This has grown beyond the business risk of Fannie and Freddie and it encompasses the systemic risk of the entire system because the world needs to see agency mortgage backed securities as money good in order to properly function. The great news here is that if you have any questions at all, you have the best resource in the world at your fingertips, Treasury's Steven Mnuchin:

<https://www.housingwire.com/articles/38632-trump-picks-former-goldman-sachs-exec-onewest-chairman-steve-mnuchin-to-lead-treasury/>

Thanks for your time,

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