STRUCTURED FINANCE ASSOCIATION

Executive Summary: SFA Response to FHFA Re-Proposed ECF

SFA Response to FHFA Re-Proposed ECF

Executive Summary

This is an executive summary of the Structured Finance Association (“SFA”) response to the Federal Housing Finance Agency (“FHFA”) on their Re-Proposed Capital Rule for the Enterprises (“Enterprise Capital Framework” or ECF)

Overarching Issues with FHFA’s Proposed ECF

1) The capital rule presumes consensus and clarity on a number of outstanding policy issues. Unfortunately, such agreement and understanding does not exist. The primary example of such an issue is whether there will be a full-faith and credit guaranty on legacy and new-issue Agency mortgage backed securities (MBS) in place before the GSEs exit conservatorship.
   - Enterprise capital is a necessary but insufficient step towards releasing the GSEs from conservatorship while maintaining the same stable, liquid and cost effective support for the U.S. housing finance system.
   - There is no amount of reasonable capital that can replace a full faith and credit guaranty from the U.S. Government.
   - To release the GSEs absent such a guaranty would destabilize the secondary market in contravention of the charters of the GSEs.

2) The capital rule unnecessarily penalizes Credit Risk Transfer (CRT) programs at the Enterprises.
   - The proposed treatment would in all likelihood effectively eliminate the use of CRT by the GSEs.
     - The 10% floor on the retained catastrophic risk piece of CRT makes CRT uneconomical.
     - The combined effects of the floor, the risk weighting, and the leverage ratio represent double-counting of mortgage-related assets.
   - Reducing or eliminating the bona fide benefits of CRT will concentrate risk at the GSEs, increase the GSEs cost of capital, eliminate market-based comparable pricing transparency for g-fee setting, and undoes one of the most successful programs implemented during Conservatorship.

For these reasons, SFA Recommends that implementation of the rule be suspended until these issues have been addressed and resolved.

Other Identified Issues under Proposed ECF

SFA members also commented on the following topics and question embedded in the ECF

1) Need for FHFA coordination with Treasury, Congress, and FSOC for timing of the proposal
2) Shortcomings or inapplicability of "bank-like" capital standards for the Enterprises
3) Problems with a leverage ratio that is binding from the outset
4) Issues with countercyclicality model based on home price depreciation
5) Impact on FHA volume and decreasing overall risk to taxpayers
6) Possibility of moral hazard introduced by an implied guaranty

Contacts

Michael Bright SFA, CEO michael.bright@structuredfinance.org 202.524.6301	Kristi Leo SFA, President kristi.leo@structuredfinance.org 917.459.8999
Jennifer Earyes SFA, Head of Policy jen.earyes@structuredfinance.org 646.209.2689	Dallin Merrill SFA, Director of MBS and CMBS Policy dallin.merrill@structuredfinance.org 202.524.6306
Leslie Sack SFA, Head of Government Relations leslie.sack@structuredfinance.org 202.524.6304	Ben Parish SFA, VP of Government Relations ben.parish@structuredfinance.org 202.524.6314