



March 9, 2021

Alfred M. Pollard, Esq.
General Counsel
Attention: Comments/RIN 2590–AB09
Federal Housing Finance Agency
400 Seventh Street SW
Washington, DC 20219

Re: FHFA Proposal on Enterprise Liquidity Requirements/RIN 2590–AB09

Dear Mr. Pollard,

Nareit is the worldwide representative voice for real estate investment trusts (REITs) and publicly-traded real estate companies with an interest in U.S. real estate and capital markets. Nareit's members are REITs and other real estate businesses throughout the world that own, operate, and finance residential and commercial real estate. Nareit's Mortgage REIT (mREIT) Council ("mREIT Council" or "Council"), which includes both residential and commercial mREITs, advises Nareit's leadership on mREIT matters.

On behalf of Nareit, I am happy to transmit this Comment from Nareit's mREIT Council responding to the Federal Housing Finance Agency's (FHFA) proposed rule on Enterprise Liquidity Requirements (the Proposal).

Publicly traded mREITs, which have deep experience and a proven track record of raising and deploying private capital for housing finance, play an important role today in single and multi-family finance. As of May 31, 2020, there were 42 exchange-listed mREITs in the FTSE Nareit Mortgage REITs Index, including 24 that are predominantly focused on residential housing finance. Residential mREITs, which frequently finance mortgage asset purchases with short-term repurchase agreements, have financed millions of U.S. single and multi-family homes, year after year, in recent decades.

The attached Comment sets forth the Nareit mREIT Council's concern that the exclusion of repurchase agreements secured by Agency MBS (Agency MBS Repo) as eligible high quality liquid assets (HQLA) under the Proposal's framework will raise the costs for other market participants, like mREITs, that use Agency MBS repo. This dynamic—which would act to curtail available private capital for housing finance—would operate contrary to the Proposal's stated goals and the GSEs' mission. Noting that the liquidity frameworks applicable to other U.S. federally regulated financial institutions—including banks and funds—do not similarly exclude Agency MBS Repo and that other prudential concerns do not appear to support this exclusion, Nareit's mREIT Council urges that this anomalous exclusion be eliminated in the final Enterprise Liquidity Rule.

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Nareit and its mREIT Council members would be happy to discuss the attached comment with you and your staff. Please feel free to contact me (swechsler@nareit.com; (202) 739-9406), or Victoria P. Rostow, Nareit's senior vice president, regulatory affairs and deputy general counsel (vrostow@nareit.com; or (202) 739-9431) with any further questions that you may have.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "S. A. Wechsler".

Steven A. Wechsler
President & CEO
Nareit

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SUBMITTED ELECTRONICALLY

Alfred M. Pollard, Esq.
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Nareit is the worldwide representative voice for real estate investment trusts (REITs) and publicly-traded real estate companies with an interest in U.S. real estate and capital markets. Nareit's members are REITs and other real estate businesses throughout the world that own, operate, and finance residential and commercial real estate. Mortgage REITs (mREITs) invest principally in mortgages and mortgage-backed debt instruments. Residential mREITs, which invest primarily in single and multifamily mortgages, including Agency MBS, are a significant source of private capital for the U.S. housing finance system. Nareit estimates that as of Dec. 31, 2020 alone, mREIT investments supported approximately 2.7 million single-family mortgages. Nareit's mREIT Council (mREIT Council or Council), whose members include both residential and commercial mREITs, advises Nareit's leadership on mREIT matters.

Nareit's mREIT Council appreciates the opportunity to respond to the FHFA's proposed rule on Enterprise Liquidity Requirements (Proposal).¹ The Council supports the broad objective, set forth in the Proposal, of ensuring that the Enterprises maintain liquidity sufficient to support their statutory mission under all market conditions, including during times of stress. However, the Council is concerned that the full exclusion of repurchase agreements secured by Agency MBS repurchase securities (Agency MBS Repo) as eligible high quality liquid assets (HQLA) under the Proposal's liquidity framework would operate contrary to the goals of the Proposal and the mission of the Enterprises. For this reason, we join SIFMA² and others in respectfully suggesting that the Proposal be modified to permit Agency MBS Repo be considered an eligible HQLA.

¹ Available here: <https://www.govinfo.gov/content/pkg/FR-2021-01-08/pdf/2020-28204.pdf>. The provision at issue may be found on page 1312.

² SIFMA, Comment on FHFA Enterprise Liquidity Requirements (March 9, 2021) available at <https://www.fhfa.gov/SupervisionRegulation/RegulationFederalRegister/Pages/Commentonrule.aspx>.

The Enterprises have invested over a long period of time in Agency MBS Repo operations, and these Agency MBS Repo investments have well served U.S. housing finance generally. Enterprise MBS Repo operations increase the liquidity of mortgage investments, providing stability and improving the distribution of housing finance capital. Excluding Agency MBS Repo from this list of HQLAs would reduce liquidity in the Agency MBS Repo markets, raising costs for other market participants that use repo transactions finance their Agency MBS positions. The Council is concerned that this exclusion would impede, rather than enhance, the ability of the GSEs to fulfill their statutory mission of “promot[ing] access to mortgage ... by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.”³

The treatment of Agency MBS Repo under the Proposal would also be inconsistent with their treatment under liquidity frameworks applicable to other financial institutions. Noting that “liquidity risk management is a part of any safety and soundness regulatory framework for financial institutions ...,” the Proposal suggests that the Enterprise framework is intended to be similar to and operate in parallel with the liquidity frameworks applicable to banks and funds. However, the current federal liquidity rules applicable to banks and funds do not similarly scope out Agency MBS Repo in this manner. To the contrary, the joint federal bank regulatory agencies Liquidity Coverage Ratio (LCR) rule specifically includes Agency MBS as a level 2A HQLA which are subject to a 15% haircut and 40% of the overall HQLA amount.⁴ The SEC’s Rule 2a-7, which is designed to assure money market funds remain highly liquid, also permits money market funds to invest in Agency MBS Repo.⁵

The Proposal supports the proposed prohibition on Agency MBS Repo by citing concerns about “wrong way risk.” However, the Enterprise Agency Repo transactions at issue here are largely conducted through the Fixed Income Clearing Corporation (FICC), which acts as a central counterparty, maintaining and enforcing stringent membership requirements and collecting margin from the Enterprises using a multi-factor value-at-risk model. Because FICC guarantees the completion of settlement in a member default scenario, it does not appear that excluding Agency MBS Repo transacted through FICC in this manner from the HQLA category materially would enhance Enterprise risk mitigation.

The Enterprises also have historically conducted some short-term Agency MBS Repo transacted with highly-rated banks, which assume counterparty risk. Similar to FICC cleared trades, these banks impose stringent multi-variable risk-based margin requirements to cover collateral risks. The Council respectfully suggests that the FHFA could manage any concerns about these trades through a haircut and/or concentration limits as is done with respect to banks under the federal LCR rules.

³ See, e.g., Fannie Mae’s charter (12 U.S.C. 1716 et seq) here: <https://www.fanniemae.com/sites/g/files/kog yhd191/files/migrated-files/resources/file/aboutus/pdf/fm-amended-charter.pdf>.

⁴ 12 CFR § 50 (OCC); 12 CFR § 249 (Board); 12 CFR § 329 (FDIC).

⁵ Further, the FICC is currently contemplating a “Sponsored GC” program that would allow money funds to invest in MBS repo through the FICC; see, FICC Sponsored Repo in 2021 - The Service that Transformed the Repo Marketplace is Getting Even Better available at <https://www.dtcc.com/dtcc-connection/articles/2021/february/09/ficc-sponsored-repo-in-2021>.



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Finally, we note that the Proposal justifies the inclusion of U.S. Treasury repo securities (but not Agency MBS repo) as HQLA under the framework, by pointing to the ease of converting these securities into cash. However, Agency MBS repo securities are similarly liquid. As noted in SIFMA's March 9 Comment and accompanying data⁶, there is a high degree of correlation between MBS and U.S. Treasury repo rates through a variety of market conditions, including periods of repo rate spikes.

Nareit and its mREIT Council members appreciate the FHFA's efforts to ensure that the Enterprises maintain robust liquidity under all market conditions. However, the Council does not believe that the full exclusion of MBS repo as an eligible liquidity portfolio investment would contribute to this goal, or is justified by other prudential concerns. Accordingly, Nareit's mREIT Council urges the FHFA to reconsider this aspect of its Proposal and to eliminate this anomalous exclusion in the final Enterprise Liquidity Rule.

Nareit appreciates the opportunity to comment on this important Enterprise liquidity framework. Please do not hesitate to contact Steven A. Wechsler, Nareit's president and CEO (swechsler@nareit.com; (202) 739-9406), or Victoria P. Rostow, Nareit's senior vice president, regulatory affairs and deputy general counsel (vrostow@nareit.com; or (202) 739-9431) with any questions about this comment or related concerns.

Respectfully submitted,

Nareit mREIT Council

Byron L. Boston, Co-Chair
President, CEO & Co-CIO, Dynex Capital Inc.

Phil Reinsch, Co-Chair
President & CEO, Capstead Mortgage Corporation

⁶ Supra note 2 at pp.3-5.