November 26, 2021

Ms. Sandra Thompson

Federal Housing Finance Agency

Eighth Floor

400 Seventh Street, S.W.

Washington, D.C. 20219

Re: Amendments to the Enterprise Regulatory Capital Framework Rule
 Prescribed Leverage Buffer Amount and Credit Risk Transfer
 Notice of Proposed Rulemaking, RIN-2590-AB17

Dear Ms. Thompson,

I am writing on behalf of 400 Capital Management LLC (the “Firm”), an alternative credit asset management firm registered with the U.S. Securities and Exchange Commission as an investment adviser. Our Firm manages over $5.5 billion of invested capital on behalf of institutional investors, including state, city, and corporate pension plans, endowments and foundations. We actively manage total return, private debt and separately managed portfolios focused primarily on investment opportunities in securitized mortgages and structured credit products.

On September 16, 2021 the Federal Housing Finance Agency issued a notice of proposed rulemaking to amend the Government-Sponsored Enterprises (Fannie Mae and Freddie Mac) capital rules that were [issued](https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Issues-Notice-of-Proposed-Rulemaking-to-Amend-the-Enterprise-Regulatory-Capital-Framework.aspx) in December 2020. Specifically, the proposed rule would replace:

* the fixed Prescribed Leverage Buffer Amount (“PLBA”) equal to 1.5 percent of an Enterprise's adjusted total assets with a dynamic PLBA equal to 50 percent of the Enterprise's stability capital buffer; and
* the prudential floor of 10 percent on the risk weight assigned to any retained Credit Risk Transfer (“CRT”) exposure with a prudential floor of 5 percent on the risk weight assigned to any retained CRT exposure.

Fannie Mae and Freddie Mac (together, the “Enterprises”) are important to the U.S. housing market and its overall economic stability. The Enterprises have contributed by developing a secondary mortgage market in the U.S. which has become one of the most systemically important markets globally to financial institutions and investors and play a central role in making sustainable and equitable access to affordable housing possible for millions of American families today and in the years ahead. These twin achievements reflect the deep, liquid markets the Enterprises have developed and promoted, and their purchases and guarantees of loans in the secondary market are the backbone of the supply of new mortgage funding. The net result has reduced mortgage rates for homebuyers and established an important source of liquidity for banks and investors.

The proposed refinements will further support the evolution of the Enterprises by improving their ability to fulfill their charter missions in a safe and sound manner. As the Enterprises continue to retain earnings, the ability of the Enterprises to operate in a safe and sound manner will be increased, thus allowing them to maintain sufficient capital and build reserves to limit risks that arise in the operations and management of the Enterprises. This will be accomplished in a paradigm where total capital will be a risk-based metric (rather than a leverage ratio) which acts as the binding capital constraint for the Enterprises and where the Enterprises have incentives to distribute acquired credit risk to private investors through CRT rather than to buy and hold that risk. It is our view that these initiatives collectively can support the Enterprises’ important role of providing sustainable and equitable access to affordable homeownership, while maintaining prudent risk management as a foundation of the housing finance system.

CRT is an excellent example of a private capital partnership strategy. Promoting its usage will reduce taxpayer exposure to the credit risk on riskier loans. The proposed rule accomplishes this by reducing the 10 percent risk weight floor assigned to any retained CRT exposure to a 5 percent risk weight floor. The 10 percent risk weight floor is too high of a prudential floor as supported by market experience since 2013 when the CRT market began. The proposed 5 percent risk weight floor is a more appropriate level and will increase the capital relief provided by CRT and incentivize the Enterprises to engage in CRT, helping to further reduce potential taxpayer liability. Fannie Mae’s restart of their CRT program almost immediately after FHFA proposed the 5 percent risk weight floor demonstrates the effectiveness of the proposal. We also are in favor of removing the overall effectiveness adjustment to retained CRT exposures in accordance with the Enterprise Regulatory Capital Framework's securitization framework. Overall, we believe these will be very effective refinements to the Enterprise regulatory capital framework and, if adopted, will ultimately be a positive development which recognizes the value of CRT as a tool the Enterprises can use to reduce risk in partnership with the private capital.

Furthermore, we support moving towards a dynamic leverage buffer which has been an effective tool for managing capital at the global systemically important banks. It would be a positive development for the binding capital restraint of the Enterprises to be their risk-based capital requirements rather than a binding leverage ratio. Accordingly, we believe such a development would be an important step in properly incentivizing the Enterprises to maintain their capital while effectively reducing their risk.

Thank you for your consideration of this letter. Please feel free to contact me at (212) 612-3102
(or chentemann@400capital.com) if you have any questions or require additional information.

Sincerely,



Christopher Hentemann
Managing Partner & Chief Investment Officer
400 Capital Management LLC

cc: Charles C. Yi, Senior Advisor for Legal Affairs and Policy

 Federal Housing Finance Agency

 The Honorable James Himes
 U.S. House of Representatives