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January 3, 2022

Sandra Thompson
Acting Director
Federal Housing Finance Agency
400 7th St. SW
10th Floor
Washington, DC 20219

RE: Amendments to the Enterprise Regulatory Capital Framework Rule – Public Disclosures for the Standardized Approach

Dear Acting Director Thompson,

The Independent Community Bankers of America (ICBA)¹ appreciates the opportunity to comment on the proposed rule that would establish a new standardized approach to disclosure requirements for Fannie Mae and Freddie Mac (the Enterprises), including disclosures associated with regulatory capital instruments and risk-weighted assets calculated under the Enterprise Regulatory Capital Framework (ERCF).

ICBA is generally supportive of the Federal Housing Finance Agency's (FHFA) proposal to encourage public transparency through detailed disclosures – similar to the requirements for large banks – which will in turn result in increased market confidence that the Enterprises maintain sound risk management practices. However, we are concerned that without more

¹ The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services.

With nearly 50,000 locations nationwide, community banks constitute roughly 99 percent of all banks, employ nearly 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding nearly \$5.9 trillion in assets, over \$4.9 trillion in deposits, and more than \$3.5 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org.

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clarity about the future of the Enterprises, particularly regarding any plans to exit conservatorship, this proposal may be slightly premature.

Background

The proposed rule is framed as a means to ensure market discipline among the Enterprises, allowing key investors and stakeholders the ability to assess their overall risk profile. Though the proposal admits that these disclosure requirements come at a significant cost, it tries to balance the market benefits with the financial burden. Moreover, the proposed rule outlines a standardized approach that details qualitative and quantitative disclosures across eleven categories: (1) capital structure; (2) capital adequacy; (3) capital buffers; (4) credit risk: general disclosures; (5) general disclosure for counterparty credit risk-related exposures; (6) credit risk mitigation; (7) credit risk transfers (CRT) and securitization; (8) equities; (9) interest rate risk for non-trading activities; (10) operational risk; and (11) tier 1 leverage ratio. These generally reflect many of the disclosures that apply to large banks in the United States, and they have been modified to satisfy the unique requirements of the ERCF.

Additionally, the proposed rule includes disclosure requirements related to market risk, including formal disclosure policies approved by the board of directors of each Enterprise. The proposal also includes quarterly quantitative disclosure requirements for each material portfolio of covered positions associated with exposure and risk-weighted asset amounts as well as the aggregate amount of on-balance sheet and off-balance sheet securitization positions by exposure type. Each Enterprise would also have to make annual public disclosures regarding qualitative aspects of risk-management objectives, portfolio composition and valuation policies, procedures, and methodologies. Finally, the Enterprises must comply with these disclosure requirements within six months of the publication of the final rule in the Federal Register.

ICBA Comments

ICBA supports FHFA's efforts to require the Enterprises to provide robust financial disclosures, like those that large banks are required to provide under Basel III. These disclosures would complement and enhance FHFA's efforts to ensure safety and soundness while acting as a necessary step in allowing the Enterprises to implement the recently finalized ERCF rule. These

disclosures would also provide market participants and Enterprise shareholders information regarding risk management, corporate governance, and regulatory capital, comprising risk-weighted assets calculated under the ERCF's standardized approach, including statutory capital requirements, supplemental capital requirements, and capital buffers. As stated above, these types of disclosures are common to those used by the largest financial institutions in the nation.

However, the Enterprises remain in conservatorship and are essentially run by their regulator, FHFA. Given that there has been little to no information regarding the current Administration's and FHFA's plans for the eventual release of the Enterprises from conservatorship and their return to shareholder control and ownership, a rule requiring the Enterprises to devote substantial time and resources to developing and producing these disclosures seems to be premature.

While the Enterprises do have private shareholders, they currently only have a minority ownership position. It is uncertain if or when their previous ownership position will ever be restored. As you know, the U.S. Government has controlling interest in the Enterprises by virtue of the Senior Preferred Stock Purchase Agreements (PSPAs) which give 79.9% ownership to the U.S. Treasury. Currently, Treasury's ownership stake in the Enterprises is approximately \$200 billion and continues to grow as the Enterprises rebuild their equity capital. Unless Treasury relinquishes its liquidation preference, the private shareholders' value will never recover, and the Enterprises will never be able to raise outside equity through the capital markets. Unlike the U.S. Treasury, private investors and other market participants are the constituency that would find these proposed disclosures most useful.

ICBA is very concerned about the prospect of a permanent conservatorship of the Enterprises. Such an outcome could have unintended, negative consequences for the housing market and the economy in general. To avoid this outcome, ICBA urges the FHFA to engage with Treasury to resolve the liquidation preference, modify the PSPAs accordingly, and work with the Enterprises to develop a realistic timeline with specific benchmarks and milestones that must be met for the Enterprises to be released from conservatorship. The proposed disclosures

could very well be a part of this process and could provide the clarity the market needs to be comfortable with the direction of the Enterprises as they prepare and eventually exit conservatorship and return to private ownership and management. FHFA could then return to its traditional role of safety and soundness regulator, similar to the OCC, Federal Reserve, and the FDIC.

ICBA looks forward to working with FHFA on this issue going forward. If you have any questions regarding the content of this letter, please contact the undersigned at tim.roy@icba.org.

Sincerely,

Tim Roy
AVP – Housing Finance Policy

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