

May 12, 2023

*Via Electronic Delivery*

Mr. Clinton Jones  
General Counsel  
Federal Housing Finance Agency  
400 Seventh Street, SW  
Washington, DC 20219

Re: Comments/RIN 2590-AB27; Proposed Rule on Enterprise Regulatory Capital Framework – Commingled Securities, Multifamily Government Subsidy, Derivatives, and Other Enhancements

Dear Mr. Jones:

Freddie Mac is pleased to submit our enclosed comments on the Federal Housing Finance Agency's proposed rule on the Enterprise Regulatory Capital Framework – Commingled Securities, Multifamily Government Subsidy, Derivatives, and Other Enhancements. As always, Freddie Mac appreciates the opportunity to provide our views on the proposed rule. Please do not hesitate to contact me if you have any questions.

Sincerely,



Enclosure



# **Freddie Mac**

*Comments on the Proposed Enterprise Regulatory Capital Framework Amendments*

*May 12, 2023*

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## I. Introduction

Freddie Mac appreciates the opportunity to provide comments in response to FHFA’s recently proposed amendments to the Enterprise Regulatory Capital Framework (ERCF) (the “Proposal”).<sup>1</sup> Overall, Freddie Mac supports a resilient, risk-sensitive capital framework to achieve robust risk, capital, and liquidity management. We believe that such a framework will firmly bolster the Enterprises’ missions to provide liquidity, stability, and affordability to the U.S. housing market under all economic conditions and to all communities in a safe and sound manner. For these reasons, Freddie Mac generally believes that the overall adoption of this Proposal, in conjunction with several recommendations outlined and detailed further below, would further advance these significant overarching objectives for the U.S. housing market.

As an initial matter, Freddie Mac supports the adoption of the following elements of the Proposal, without any further modifications: (1) reducing to 5 percent the risk weight and to 50 percent the credit conversion factor on guarantees on commingled securities; (2) expanding the definition of “mortgage servicing assets” to include servicing rights on mortgage loans owned by the Enterprises; (3) amending the risk weights for interest-only mortgage-backed securities; (4) assigning an original credit score of 680 to a single-family mortgage exposure without a permissible credit score at origination; and (5) extending the compliance date for the use of advanced approaches for determining risk weights from 2025 to 2028 (subject to any later compliance date in an applicable order).

In addition to the aforementioned changes, we further recommend the adoption of the following elements of the Proposal, with certain revisions specified in greater detail below: (1) the risk multiplier of 0.6 for multifamily mortgage exposures secured by properties with certain government subsidies; (2) the standardized approach for counterparty credit risk (SA-CCR) as the method for computing risk weights for derivatives and cleared transactions; (3) the modified procedure for determining a representative credit score for single-family mortgage exposures; (4) the 20 percent risk weight for guarantee assets (GA); (5) permitting eligible time-based calls for CRT operational criteria; (6) timing alignment between the application of single-family countercyclical adjustments and property value adjustments; and (7) clarify the calculation of the stability capital buffer.

## II. Comments and Recommendations

We recommend adopting the following provisions in the Proposal, with modifications described below. We also explain certain other targeted recommended revisions to the ERCF.

### A. SA-CCR

*We recommend implementation optionality and phased compliance in connection with the proposed adoption of SA-CCR for calculating exposure amounts for derivatives.*

The Proposal would require the use of SA-CCR, rather than the current exposure methodology (CEM) as the method for computing exposure at default for derivative and cleared transactions.<sup>2</sup> The Proposal also uses the SA-CCR calculation as an input to the proposed simple credit valuation adjustment (CVA) formula, and thus the two methodologies are linked by design. While we at Freddie Mac appreciate

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<sup>1</sup> FHFA, Enterprise Regulatory Capital Framework—Commingled Securities, Multifamily Government Subsidy, Derivatives, and Other Enhancements, 88 Fed. Reg. 15306 (March 13, 2023).

<sup>2</sup> Proposed 12 CFR 1240.36, 1240.37, and 1240.39.

FHFA’s effort to align the ERCF to the U.S. banking framework and the general guidance per the Basel Committee on Banking Supervision in this respect, we offer two recommendations that would better address the Enterprises’ risks and the implementation challenges associated with moving to the SA-CCR method. As explained below, these recommendations are as follows: (1) the use of implementation optionality; and (2) the establishment of a phased compliance schedule.

The Enterprise’s derivatives profile is not nearly as complex as that of an institution subject to an advanced approach under U.S. banking regulations. The Proposal’s SA-CCR measurement or formulaic approach for the simple CVA measurement departs from the CEM and the internal model methodology (IMM) used by Freddie Mac. As a result, the proposed SA-CCR approach would produce key operational, resource, and compliance implications for both the Enterprises and FHFA. While the proposed changes to counterparty credit risk (CCR) and CVA follow guidance from the Basel committee issued in 2014<sup>3</sup> and are consistent with the regulations issued for U.S. bank organizations in 2019 (fully implemented in 2022),<sup>4</sup> Freddie Mac has a derivatives portfolio and business profile that merits further tailoring by FHFA.

Unlike large U.S. banking organizations, Freddie Mac has no derivatives related to commodities, equities, or currency exchange. Instead, the vast majority of our derivatives are interest rate derivatives used to economically hedge interest rate risk. Unlike a global systemically important bank (G-SIB), all of Freddie Mac’s interest rate derivatives face large global banks (20% Risk Weight) and QCCPs (2% Risk Weight).

As revealed in the following charts, the size of Freddie Mac’s derivatives portfolio and exposures are also much smaller than the largest U.S. banking organizations:

**Table 1: Exposure at Default (EAD) and Risk Weighted Assets (RWA) from Select Large U.S. Banking Organizations**

*(\$ in millions)*

<b>U.S. Banking Organization</b>	<b>EAD<sup>5 6</sup></b>	<b>RWA<sup>5</sup></b>
<b>JPMorgan Chase (AA)</b>	313,153	119,546
<b>Citigroup (AA)</b>	233,392	116,166
<b>Morgan Stanley (AA)</b>	172,801	54,987
<b>Bank of New York Mellon (AA)</b>	21,737	-
<b>US Bank (Non-AA)</b>	2,445	4,764
<b>PNC (Non-AA)</b>	3,979	3,003 <sup>7</sup>
<b>Truist (Non-AA)</b>	2,935 <sup>8</sup>	1,722
<b>Huntington (Non-AA)</b>	1,751	963 <sup>7</sup>
<b>Regions Bank (Non-AA)</b>	117 <sup>8</sup>	615 <sup>7</sup>
<b>Freddie Mac</b>	2,599	383

<sup>3</sup> <https://www.bis.org/publ/bcbs279.pdf>.

<sup>4</sup> <https://www.federalregister.gov/documents/2020/01/24/2019-27249/standardized-approach-for-calculating-the-exposure-amount-of-derivative-contracts>.

<sup>5</sup> Basel Pillar 3 Regulatory Capital.

<sup>6</sup> Counterparty credit risk exposure of OTC derivatives, repo-style transactions, and eligible margin loans. The amount also includes exposures related to cleared transactions. For Freddie Mac, EAD does not include repo-style transactions, and eligible margin loans while including forward settlement.

<sup>7</sup> Due to reporting differences, RWA data for PNC, Huntington, and Regions Bank is shown as Derivatives, excluding Cleared Transactions, Default Fund Contributions, Unsettled Transactions, etc.

<sup>8</sup> Due to reporting differences, EAD data for Truist is shown as the notional; and EAD data for Regions Bank is shown as the current exposure.

As showcased above, Freddie Mac’s EAD and RWA as of December 2022 was \$2.6 billion and \$383 million under CEM. Total internal EAD was ~\$4.3 billion. In contrast to U.S. banking organizations subject to an advanced approach under the banking regulations, Freddie Mac has a derivatives portfolio more like a U.S. banking organization subject to a non-advanced approach (non-AA). Bank regulators provide all non-advanced approach institutions an opportunity to continue following CEM, and the Enterprise recommends a similar approach with respect to the Proposal.

In addition, we recommend an implementation period of no less than 24 months from the effective date of the finalization of the Proposal. This timetable is informed by and generally consistent with the transition period offered by bank regulators for the largest U.S. banking organizations when implementing similar financial regulatory reforms,<sup>9</sup> and considers the substantial operational complexity in implementing the outlines of the Proposal. In order to address known operational challenges related to implementation, Freddie Mac would need to expand and enhance its technology and compliance management systems as well as install a proportional, appropriately allocated size of staffing resources, governance frameworks, risk controls, and other systems-related infrastructure. Specifically, a successful roll-out of the SA-CCR regime requires compiling additional granular data; refreshing taxonomies, data attributes, and updated data definitions/identifications; and establishing calculation logic within existing or new infrastructure platforms calibrated to the Proposal as written and integrated with other existing regulatory guidance and supervisory expectations. Moreover, key areas of the Proposal require further interpretation or guidance from FHFA as they could have significant impact on the required capital amounts under the current ERCF structure.

As noted above, Freddie Mac’s derivatives profile is not nearly as complex as that of an institution subject to an advanced approaches, consistent with current U.S. banking regulations for other financial institutions. Based on Freddie Mac’s estimate of our U.S. G-SIB scores in relation to the over-the-counter derivatives category, we are significantly below those of the other financial G-SIBs. If Freddie Mac were required to follow regulations like those that apply to the G-SIBs, then we would need access to sufficiently allocated time and runway to build capabilities for full compliance.

**Table 2: U.S. G-SIB Scores<sup>10</sup>**

<b>2022 U.S. GSIB Scores</b>	<b>Systemic Importance Score</b>	<b>Complexity Score</b>	<b>Over-the-Counter Derivatives Score</b>	<b>Capital Surcharge %</b>
<b>JPMorgan Chase</b>	447	492	733	2.50%
<b>Bank of America</b>	331	362	492	2.00%
<b>Citigroup</b>	367	344	586	2.00%
<b>Goldman Sachs</b>	266	436	608	1.50%
<b>Morgan Stanley</b>	206	311	474	1.00%
<b>Wells Fargo</b>	172	209	136	1.00%
<b>Bank of New York Mellon</b>	156	43	17	1.00%
<b>State Street</b>	146	27	39	1.00%
<b>Freddie Mac Estimate<sup>11</sup></b>	217	48	15	N/A

*B. Multifamily*

<sup>9</sup> See <https://www.occ.gov/news-issuances/bulletins/2020/bulletin-2020-7.html>.

<sup>10</sup> US GSIB Basel scores from the Office of Financial Research, U.S. Department of the Treasury <https://www.financialresearch.gov/bank-systemic-risk-monitor/>.

<sup>11</sup> Freddie Mac G-SIB scores are estimates using internal and public data.

*We support the introduction of the multifamily government subsidy risk multiplier and recommend certain targeted enhancements.*

The Proposal would introduce a risk multiplier equal to 0.6 for any multifamily mortgage exposure secured by one or more properties, each with at least one applicable government subsidy, subject to certain affordability criteria.<sup>12</sup> The applicable government subsidies include: (1) the Low Income Housing Tax Credit (LIHTC) program; (2) Section 8 project-based rental assistance; and (3) state and local affordable housing programs that require the provision of affordable housing for the life of the loan. The multifamily mortgage exposure meeting the collateral criteria would qualify for the 0.6 risk multiplier if the Enterprise can verify that each property securing the exposure has at least 20% of its units restricted as “affordable units,” where this affordability restriction means less than or equal to 80% of area median income (AMI).

We generally support the introduction of the 0.6 multifamily government subsidy risk multiplier for the reasons explained in the preamble to the Proposal regarding the lower risk of government subsidized loans relative to conventional loans. We suggest two revisions to the proposed methodology related to the affordability restriction: (1) revise the affordability restriction to allow for very high cost / high cost exceptions; and (2) offer technical revisions to the affordability restriction.

Our first recommendation is to modify the “affordable units” definition. We believe that the definition should be modified for measurements in Very High Cost or High Cost designated areas. For instance, the income threshold for affordability is 80 percent of AMI or below in Standard markets, while the income threshold for affordability is 100 percent of AMI or below in High Cost markets and 120 percent of AMI or below in Very High Cost markets. High Cost and Very High Cost markets are designated by FHFA. This affordability definition is consistent with the affordability definition in the FHFA Scorecard.

Our second recommendation relates to requirements of the affordability restriction. We believe that the assessment of whether the property under the multifamily government subsidy program has at least 20% of its units restricted as “affordable units” should be measured at the time of acquisition of the loan. Such measurement at the time of acquisition would avoid operational constraints and is consistent with the method for measuring multifamily housing goals.

*We support the Proposal’s 20% risk weight for GA, but without including GA in the definition of covered positions subject to market risk capital requirements*

The Proposal would introduce a 20% risk weight for an Enterprise’s GA. In response to Question 18 in the preamble to the Proposal, we do not believe the GA should be included in the definition of covered positions subject to market risk capital requirements.<sup>13</sup> The GA is not a position that is held for the purpose of short-term resale or with the intent of benefitting from short-term price movements. The GA is a result of GAAP accounting treatment for the off-balance sheet guarantees. When a GA is established as an asset on the balance sheet, a guarantee obligation (GO) is also established as a liability on the balance sheet at the same time. After the initial establishment of the GA and GO, the GA is marked-to-market with fair value changes recorded through earnings, while the GO is amortized over the lifetime of the guarantee. Although the difference in the accounting for GA and GO may result in short-term earnings variability, the fair value changes on the GA and amortization income on the GO offset one another over the lifetime of the guarantee.

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<sup>12</sup> Proposed 12 CFR 1240.34(a).

<sup>13</sup> See Proposal at 15313 (“Question 18: Should FHFA include guarantee assets in the definition of covered positions subject to market risk capital requirements?”).

*FHFA should revise the treatment of K-Deal loans in defeasance*

While not specifically raised in the Proposal, we recommend that FHFA revise the treatment of defeased loans under the ERCF. Defeasance in commercial real estate is a common type of prepayment option. The defeasance process replaces the mortgaged real property collateralizing a loan with a portfolio of fixed-rate government securities that generate the same cashflows as the original collateral would. Defeasance is the standard prepayment protection for Freddie Mac multifamily loans.

We view the loans in defeasance as pay-offs because the cashflows of our multifamily K-Deal bonds are no longer backed by mortgaged real properties. Because the loans in defeasance are now collateralized by extremely safe and stable government securities, we recommend that FHFA amend the ERCF to eliminate defeased loans in the exposure amount of our K-Deal guarantees.

*C. Single-Family*

*We support the modified procedure of using the “average / low” method to determine the representative credit scores for single-family mortgage exposures under the current ERCF grid*

We support the Proposal’s requirement for an Enterprise to calculate the average credit score across repositories for each borrower, and then to select the lowest single score across all borrowers (i.e., “average / low” method). We agree with FHFA’s estimate that the impact of this change on risk-based capital requirements would be generally de minimis. Separately, if FHFA eventually implements an “average / average” method (i.e., using the average credit score across repositories for each borrower, then calculating the average score across all borrowers), then we recommend that the grids for determining base risk weights for single-family mortgage exposures ought to be re-calibrated accordingly.

*Clarification of application of single-family countercyclical adjustment*

We agree with FHFA’s proposed revision to align the timing between the application of the single-family countercyclical adjustment (CCA) and the property value adjustment. In order to clarify this change, as explained below, we recommend that FHFA revise a different portion of the definition of “adjusted MTMLTV.”

Under the ERCF, the mark-to-market loan-to-value ratio (MTMLTV) of a single-family mortgage exposure is a “key input for determining credit risk-weighted assets for these exposures.”<sup>14</sup> When calculating an MTMLTV, an Enterprise must use the FHFA Purchase-only State-level House Price Index (HPI) to update a property value. An “adjusted MTMLTV” is then calculated by the application of a CCA. This adjustment seeks to reduce the procyclicality of the capital requirements by increasing requirements when house prices are significantly above the long-term trend and reducing requirements when house prices are significantly below their long-term trend. While the ERCF currently establishes a six-month delay between loan origination and the first property value adjustment (reflecting a time lag in publication of the HPI), there is no similar delay in the application of the CCA – thereby creating a timing misalignment.

FHFA explains that it seeks to fix this timing mis-alignment by requiring an Enterprise to apply the first CCA “simultaneously with the first property value adjustment.”<sup>15</sup> However, in order to effect this change, we believe that only the first element of the definition of “adjusted MTMLTV” would require revision, by deleting the parenthetical reference to using OLTV for single-family mortgage exposures with

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<sup>14</sup> 88 Fed. Reg. at 15314.

<sup>15</sup> 88 Fed. Reg. at 15314.



loan age less than six months. Based on the above, we recommend that the resulting revised definition of adjusted MTMLTV would then to be detailed as follows:

*Adjusted MTMLTV* means, with respect to a single-family mortgage exposure and as of a particular time, the amount equal to:

- (i) The MTMLTV of the single-family mortgage exposure; divided by
- (ii) The amount equal to 1 plus the single-family countercyclical adjustment as of that time.

From an implementation perspective, we would request six months to implement the aforementioned changes, with an additional three-month transition periods / runway so as to sufficiently test controls, parallel runs, and other execution-related protocols.

#### *D. Credit Risk Transfer (CRT)*

##### *Time-based calls for CRT exposures and early redemption features in senior-subordinated structures*

We agree with FHFA's proposed revisions that would clarify that the ERCF permits time-based calls. As FHFA notes, time-based calls are contractual provisions that permit an issuing Enterprise to redeem a securitization exposure on one or more pre-specified call dates. These calls are integral to the Enterprises' credit risk management, but are not explicitly included as "eligible clean-up calls" that provide capital relief under the provisions of the ERCF for CRT.<sup>16</sup> The proposed language would provide such clarification.

While not expressly addressed in the Proposal, we recommend further that FHFA also provide clarity with respect to another category of redemption rights, namely the early redemption features in senior-subordinated structures. Freddie Mac believes that the current ERCF language should be revised in order to clarify that early redemption rights held by junior investors in both multifamily and single-family senior-subordinated structures (that meet the requirements of 12 CFR 1240.41) do not disqualify those structures from specified capital relief under the ERCF rules *unless* the underlying mortgages include open-end credits and the early redemption rights constitute an early amortization provision as defined in the ERCF. In addition, if a junior investor were to exercise a redemption right for the underlying mortgages in a senior-subordinated structure, Freddie Mac would have no remaining credit risk in connection with the mortgages. Accordingly, the junior investor's right to exercise a redemption should not prevent Freddie Mac from obtaining the benefit of capital relief from such a structure.

##### *Freddie Mac also recommends that FHFA remove the 5% CRT risk weight floor for a CRT transaction in senior / subordinated structure when the credit enhancement (CE) level exceeds the stress loss*

The 5% CRT risk-weight floor is an updated and enhanced prudential floor that seeks to ensure the viability of CRTs while mitigating their safety and soundness, mission, and housing stability risks and to reduce the variation in outcomes due to incorrect model specifications and errors. While we greatly appreciate FHFA's prior decision to revise the floor from 10% to 5%, our recommendation is to further remove the CRT risk-weight floor for any CRT transaction in senior / subordinated structure when the CE level exceeds the stress loss. We believe that the senior / subordinated structure where the attachment point is set at zero (i.e., transferring the first loss) transfers the entire expected loss and is therefore less subject to any variations or volatility driven by model. When the CE level in a senior / subordinated structure

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<sup>16</sup> See 12 CFR 1240.41.

exceeds the stress loss, we believe that the CRT transaction would have adequate protection to mitigate the risk arising from model errors and ensure the viability of the CRT.

### *E. Stability Capital Buffer*

#### *Recommended changes to the stability capital buffer*

The ERCF includes a stability capital buffer that is based on an Enterprise's share of the total residential mortgage debt outstanding in the United States that exceeds a threshold of 5% market share. The Proposal would address potential conflicts between implementation delays in increases and decreases in the stability capital buffer. Specifically, increases in the stability capital buffer are implemented with a two-year delay, while decreases are implemented with a one-year delay. Under the Proposal, if an increase and a decrease in the stability capital buffer are scheduled for the same date, then the Enterprise would rely on the more recent data and implement the decrease, disregarding the increase.

Moreover, and as Freddie Mac had previously raised in the November 2021 ERCF Comment Letter, we recommend a review of the stability capital buffer, specifically with respect to the calibration of the buffer. The current formula for the stability capital buffer, expressed as a percentage of ATA, increases by five basis points for each percentage of market share exceeding that threshold.<sup>17</sup> In adopting the ERCF, FHFA indicated that this market share approach would create incentives for each Enterprise to curb its market share and growth in ordinary times, thereby "preserving room for a larger role during a period of financial stress."<sup>18</sup> In the preamble to the ERCF, FHFA acknowledged that it carefully considered an alternative approach of calculating the stability capital buffer in a manner analogous to the U.S. banking approach for determining the G-SIB surcharge, but that "limits on available data precluded, at least at this time, the adjustments that would be necessary to ensure a modified U.S. banking framework approach yields an Enterprise-specific stability capital buffer that is reasonably tailored to each Enterprise's housing finance market stability risk."<sup>19</sup>

Freddie Mac believes that FHFA should reconsider its decision regarding the stability capital buffer and adopt a more dynamic buffer that is based on the existing systemic risk-scoring methodology that the Federal Reserve uses for G-SIBs, which leverages the Basel framework under Method 1. In our August 2020 and November 2021 Comments, we recommended such an approach, based on our view that the ERCF's stability buffer should use several risk-based indicators to arrive at a buffer that reflects the risks posed by a mix of overall size and activities. These risk-based indicators fall into the Basel five categories: size, interconnectedness, substitutability, complexity, and cross-jurisdictional activity. Our recommendation contrasts with the ERCF's current approach, which focuses only on size and does not consider that we distribute a significant portion of our credit, liquidity, and interest rate risks in a broadly diversified manner (distinct from many of the practices of the G-SIBs).

We acknowledge FHFA's concerns about the challenges of developing appropriate adjustments to the U.S. banking framework's G-SIB surcharge methods, although we also believe that the advantages of a dynamic buffer anchored on the Basel standard justify the implementation challenges. FHFA's concerns can be addressed through sourcing the applicable G-SIB score indicator data from the Federal Reserve, the Office of Financial Research in the U.S. Treasury, and the investor relations websites of large banks and the Enterprises. We do not think FHFA's concerns are difficult to resolve because the required information

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<sup>17</sup> 12 CFR 1240.400.

<sup>18</sup> 85 Fed. Reg. at 82167.

<sup>19</sup> 85 Fed. Reg. at 82167.

is publicly disclosed and the calculation method is generally straightforward. As such, we can work with FHFA and incorporate FHFA guidance to resolve any concerns. Notably, we were able to calculate risk scores and capital surcharges using the aforementioned approach.

In our August 2020 and November 2021 Comments, we provided a detailed explanation of our recommended approach to use a modified version of the U.S. bank capital framework's consideration of risk-based indicators to determine a G-SIB's systemic risk score and capital surcharge.<sup>20</sup> Using this approach, Freddie Mac calculated an alternative stability capital buffer using the Bank Holding Companies' (BHC) G-SIB framework 2022 year-end data and the denominator from the Federal Reserve's website (note that the G-SIB scoring exercise is only executed on a yearly basis). We made the following assumptions to this stability capital buffer calculation: (1) using the Basel approach rather than the Method 2 approach adopted in the U.S., which replaces Method 1's substitutability category with a measure of a firm's reliance on short-term wholesale funding;<sup>21</sup> (2) including all five indicators under the BHC's G-SIB Basel framework; and (3) including both Freddie Mac and Fannie Mae data as part of the denominators.

PC debt is not issued directly by the Enterprises, but by various over-collateralized trusts backed by the assets and payments on underlying mortgages sold by an Enterprise to the trusts. PC debt is reported as on-balance sheet only due to accounting standards issued after the financial crisis relating to consolidation of variable interest entities and standards for "derecognizing" transfers of financial assets. In addition, PC debt exemplifies the disconnect between the size of the Enterprises and our riskiness. PC debt may, as an accounting matter, increase the "size" of the Enterprises, but the underlying risks of the loans and the guarantee are mitigated in many ways through pass-through of risks and CRT transactions. PC debt would be a large component of the size indicator under the systemic risk scoring, and including it in the interconnectedness indicator would be double-counting a size element rather than an interconnectedness risk element. Accordingly, the final rule should exclude PC debt from the interconnectedness indicator.

As indicated in the table below, this approach shows Freddie Mac would be required to have a ~1% stability capital buffer of RWA based on Freddie Mac's aggregate "G-SIB score" of approximately 217 points (the score is 139 if excluding PC debt), which correlates to approximately 1.0% of RWA per the Basel G-SIB systemic risk scoring methodology. Broadly speaking, the 217 points attributable to Freddie Mac correlates roughly to the 1.0 (130-229 points) and 1.5 (230-329 points) surcharge bands, and the score is reasonably tailored to Freddie Mac's risk profile and "G-SIB score." For reference, G-SIBs subject to the 1.0% G-SIB surcharge include Morgan Stanley, Wells Fargo, Bank of New York Mellon and State Street, and G-SIBs subject to the 1.5% percent G-SIB surcharge include Goldman Sachs. As of December 2022, per the Financial Stability Board (FSB), the highest bucket under Basel is 2.5%, which includes JP Morgan Chase. No other G-SIBs score within the 3.3% range, which is where Freddie Mac's Stability Capital Buffer is currently situated.

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<sup>20</sup> See August 2020 Comments at 55-59 and November 2021 Comments at 19 - 21.

<sup>21</sup> In general, Method 2 is not as applicable to the Enterprises as they do not adhere to the same business model as the U.S. G-SIBs.

**Table 3: Estimates of Freddie Mac’s Stability Capital Buffer based on Alternative Method**

		G-SIB score	Buffer as % of:		Buffer Amount (\$B)
			(a) ATA	(b) RWA	
1	ERCF market share approach (existing methodology)	N/A	0.79%	3.3%	29.5
2	Alternative systemic risk-scoring method (Freddie Mac’s proposed methodology)	217	0.24%	1.0%	9.0

Based on internationally agreed measures for relative risk among large financial institutions, Freddie Mac poses less risk to the financial system than many of the U.S. and international G-SIBs that are in higher bands using the same G-SIB systemic risk scoring methodology.

**Table 4: G-SIBs Required Level of Additional Buffer as of December 2022 as published by the Financial Stability Board (FSB)<sup>22</sup>**

G-SIB Buckets and Ranking	G-SIB Categorization
5 (3.5% RWA)	(Empty)
4 (2.5% RWA)	JP Morgan Chase
3 (2.0% RWA)	HSBC, Citigroup, and Bank of America
2 (1.5% RWA)	BNP Paribas, Industrial Commercial Bank of China, Bank of China, Barclays, Mitsubishi UFJ FG (Mitsubishi United Financial of Japan Financial Group), Goldman Sachs, and Deutsche
1 (1.0% RWA)	China Construction, Groupe Crédit Agricole, Morgan Stanley, Agricultural Bank of China, Société Générale, UBS, Mizuho FG, Sumitomo Mitsui FG, Santander, Royal Bank of Canada, Wells, Credit Suisse, Bank of New York Mellon, ING, State Street, Standard Chartered, Groupe BPCE, Toronto Dominion, and UniCredit

<sup>22</sup> Note that this data is based on Method 1 and is updated annually. We expect the FSB to release its latest G-SIB scorecard results and bucket rankings later this year.