

Federal Housing Finance Agency  
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United States  
[www.fhfa.gov](http://www.fhfa.gov)

Chris Barnard

27 October 2012

**- 12 CFR Part 1238: RIN 2590-AA47**  
**- Stress Testing of Regulated Entities**

Dear Mr. Pollard.

Thank you for giving us the opportunity to comment on your Notice of proposed rulemaking: Stress Testing of Regulated Entities.

This proposed rule would implement section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which requires certain financial companies with total consolidated assets of more than \$10 billion, and which are regulated by a primary federal financial regulatory agency, to conduct annual stress tests to determine whether the companies have the capital necessary to absorb losses as a result of adverse economic conditions. The FHFA is the primary federal financial regulator of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Home Loan Banks (Banks)<sup>1</sup>. While each of the regulated entities currently has total consolidated assets of more than \$10 billion, FHFA proposes expressly to retain to the Director the discretion to require any regulated entity that falls below the \$10 billion threshold to conduct annually the stress test.

I support this proposed rule. Stress testing is a fundamental tool for determining the expected adequacy of a regulated entity's financial strength under varying future scenarios, especially adverse and severely adverse economic and financial scenarios. Regarding the public disclosure requirements required under proposed § 1238.7, I would suggest that the 90 day timeframe is too long. In the absence of significant issues, problems or dialogue required under any supervisory review, I would suggest that a regulated entity should be required to publish a summary of results within 30 days of its report to the FHFA.

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<sup>1</sup> Collectively, regulated entities.

Please note that the comments expressed herein are solely my personal views

Finally, the most important aspect of these annual stress tests will be the quality and range of scenarios provided by the FHFA. They should be realistic and robust enough in order to illuminate potential problems and shortcomings in regulated entities' structures, strategies, planning, risk exposures and risk management and mitigation techniques. As a minimum, the "severely adverse" scenario should be at least as adverse as the worst of the current financial crisis (credit crunch) conditions. I look forward to receiving more details about these scenarios in the near future.

Yours sincerely

C.R.B.

Chris Barnard