



November 16, 2018

The Honorable Steven Mnuchin  
Secretary of the Treasury  
Chairman - Financial Stability Oversight Council  
1500 Pennsylvania Avenue, NW  
Washington, D.C. 20220

Dear Secretary Mnuchin:

On behalf of the Housing Policy Council (HPC), I am pleased to share with you and the members of the Financial Stability Oversight Council (FSOC), HPC's comment letter to the Federal Housing Finance Agency (FHFA), on FHFA's proposed capital framework for Fannie Mae and Freddie Mac (the Enterprises).

Virtually every member of FSOC has some prudential responsibility for an element of, or participants in, the U.S. housing finance system. Individually, many FSOC members have regulatory responsibility for establishing capital requirements that directly affect participants in housing finance. Collectively, FSOC has responsibility for monitoring and responding to systemic risks in the U.S. financial system. The proposed capital framework for Fannie Mae and Freddie Mac directly affects these FSOC-member responsibilities. As our letter explains, the proposed capital framework exposes system-wide issues of capital comparability and systemic risk.

HPC supports the development of a new capital framework for the Enterprises, but we stress that the capital framework should reflect the substantial risks posed by the Enterprises and should ultimately foster and promote a competitive, equitable and sound housing finance system for the future. Among our key recommendations are that issues of capital comparability across regulated financial institutions and systemic risk get more attention, not just by FHFA but collectively by prudential regulators. For example, the essential credit risk inherent in a mortgage with a given set of characteristics should lead to a capital charge for that credit risk that is indifferent to how the mortgage is financed or by whom.

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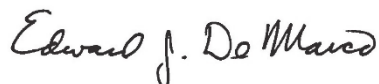
Our country has recently experienced the disruption and loss associated with the systemic risk at Fannie Mae and Freddie Mac. A key factor contributing to that systemic risk was the material imbalance in capital requirements pre-crisis, with Fannie Mae and Freddie Mac operating with far lower capital requirements than other regulated financial institutions competing for that same mortgage.

HPC respectfully requests all FSOC members to consider the issues of capital comparability and systemic risk in the regulation of housing finance and in where and how capital is allocated in our capital markets to this important asset class.

The Housing Policy Council supports FHFA's development of a capital framework and the proposed framework is a good structure. Yet, as explained in our letter, the proposal can be strengthened, and it needs to address questions of capital comparability and systemic risk, and those issues concern the rest of FSOC. Another important issue raised in our letter and germane to FSOC is the pro-cyclicality of the proposed framework. The HPC letter to FHFA makes detailed recommendations on these and other issues and we hope that the FSOC will also review the issues and recommendations.

If you have questions or would like to discuss HPC's recommendations on the FHFA Capital Proposal, please contact me at 202-589-1923.

Yours truly,



Edward J. DeMarco  
President  
Housing Policy Council

Attachment – Housing Policy Council Comment Letter to FHFA, November 16, 2018

cc: Members of FSOC

Jay Clayton, Chairman, Securities and Exchange Commission

J. Christopher Giancarlo, Chairman, Commodity Futures Trading Commission

Jerome Powell, Chairman, Federal Reserve Board

Joseph Otting, Comptroller of the Currency

Mick Mulvaney, Acting Director, Consumer Financial Protection Bureau

Jelena McWilliams, Chairman, Federal Deposit Insurance Corporation

Mel Watt, Director, Federal Housing Finance Agency

J. Mark McWatters, Chairman of the National Credit Union Administration