Subject: Risk Weight Reduction (Fannie Mae and Freddie Mac)

Date: Nov 26, 2008

Proposal: Minimum Capital Ratios; Capital Adequacy Guidelines; Capital Maintenance; Capital: Treatment of Certain Claims on, or Guaranteed by, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac)
Document ID: R-1335
Document Version: 1
Release Date: 10/07/2008
Name: Marianne M Emerson
Affiliation: FHLB Seattle, Seattle Housing Authority
Category of Affiliation: Government
Address: 120 6th Ave N

City: SEATTLE
State: WA
Country: UNITED STATES
Zip: 98109-1028
PostalCode:

Comments:

Dear Ms. Lagomarsino: This letter is a comment in response to the publication of the federal banking agencies' proposed rule to allow a banking organization to assign a 10 percent risk weight to claims on, and portions of claims guaranteed by, Fannie Mae and Freddie Mac. The Federal Home Loan Bank of Seattle has significant concerns about this proposal. While a reduction in the capital requirement for holding Fannie Mae and Freddie Mac obligations is welcome, the exclusion of the Federal Home Loan Banks (FHLBanks) from the proposed rule is a significant and unfortunate oversight. If this rule is enacted, it may result in unintended adverse consequences for the banking system, particularly during this time of economic stress. The first concern is that the proposal suggests that agencies of the U.S. government do not support the FHLBanks and their mission to the same degree they support Fannie Mae and Freddie Mac. Such a perception does not make sense in the context of other recent actions for several reasons. First, Congress created a new regulator, the Federal Housing Finance Agency (FHFA) to oversee all of the housing government-sponsored enterprises (GSEs). Second, when the new regulator took control of Fannie Mae and Freddie Mac, the director of the FHFA remarked that the FHLBanks are performing remarkably well and are well capitalized. Third, the U.S. Treasury is providing the same temporary backstop funding facility to all of the housing GSEs through the GSE Credit Facility. Finally, FRB New York is providing support for the FHLBanks, as well as for Fannie Mae and Freddie Mac, by purchasing their discount notes in recent open market operations. The greatest concern is that this proposal will result in further increases in the cost of advances available from the FHLBanks. Despite the recent actions mentioned above, spreads between FHLBank senior debt and comparable bonds issued by Fannie Mae and Freddie Mac have widened since these entities were placed in conservatorship by the FHFA. If investors continue to believe that the obligations of the FHLBanks are somehow less creditworthy than those of Fannie Mae and Freddie Mac, they will continue to demand higher yields on FHLBank bonds, resulting in higher advance rates—at a time when the banking industry is already challenged in its ability to support housing finance and economic growth. The lower risk weighting also makes FHLBank debt less attractive than debt issued by Fannie Mae and Freddie Mac for investors that are insured institutions, since those investors would have to hold twice as much capital to support the same level of investment. Thousands of community banks depend upon the FHLBanks for access to liquidity and competitively priced funding. FHLBank advances enable member institutions to offer mortgages and small business loans at competitive and affordable costs in our communities. Ten percent of our earnings are earmarked specifically for affordable housing projects. I sincerely doubt that the federal banking agencies wish to raise the cost of funds for banks in this troubled market. I strongly urge the FDIC, the Comptroller of the Currency, the Federal Reserve Board, and the OTS to continue to provide equal treatment regarding the debt securities of all of the housing GSEs with regard to risk-based capital rules. I believe this to be the course of action that achieves the most favorable outcome for all stakeholders in the housing GSEs during this extraordinary time of financial crisis. Sincerely, Marianne M. Emerson Public interest director FHLB Seattle CIO Seattle Housing Authority