January 16, 2002

The Honorable Armando Falcon, Jr.
Director
Office of Federal Housing Enterprise Oversight
1700 G Street, NW, 4th Floor
Washington, DC 20552

Dear Mr. Falcon:

On behalf of the Virginia Housing Development Authority (VHDA) I am pleased to offer the following comments regarding the Office of Federal Housing Enterprise Oversight's (OFHEO) proposed amendments to its Risk-Based Capital Rules. I am concerned that the increased capital requirements will have a negative impact on VHDA's ability to serve low and moderate income Virginians by increasing its cost of funding.

Fannie Mae, Freddie Mac and the Federal Home Loan Banks (GSEs) are frequent purchasers of VHDA bonds. Over the last two years, the GSEs purchased approximately 45% of the $2.1 billion of bonds issued by VHDA to finance mortgage loans to low and moderate income Virginians and to finance mortgage loans to owners of multi-family properties serving low and moderate income Virginians. The proposed amendments would require GSE owners of VHDA bonds to set aside capital equal to 8.75% of their holdings because VHDA bonds carry long-term general obligation ratings of "AA+" from Standard and Poor's and "Aa1" from Moody's Investors Service. The increased cost to the GSEs to own "AA" rated bonds will discourage future investment in VHDA bonds by the GSEs and will result in a higher cost of funding our programs.

Like other state housing finance authorities (HFAs), VHDA's ability to serve the housing needs of low and moderate income persons is directly related to the cost of funding for its mortgage loan programs. State housing finance authorities have been recognized as increasingly efficient providers of affordable housing programs over the last 30 years and have benefited from a high level of support from the GSEs in recent years. This support has generally come in the form of investment in HFA bonds and has served to increase demand for such bonds and to lower the associated cost of funding. VHDA is completely self-supporting and does not rely on either federal or state funds for its operations. Substantially all of the funds for VHDA programs are provided by the private sector through the purchase of VHDA bonds. In its 27-year history VHDA has lent in excess of $7.2 billion to more than 114,000 Virginians purchasing their first homes and $2 billion to develop more than 62,000 apartment units for Virginians in need of safe and affordable rental housing.

With regard to the risk level of VHDA securities, for the fiscal year ending June 30, 2001, VHDA earned $116 million on assets of $7.4 billion and had fund balances (net worth) of $1.2 billion. VHDA's mortgage loan portfolio has consistently outperformed state and national averages for delinquencies, foreclosures and losses by product type and currently includes approximately 50,000 single family mortgage loans with outstanding balances totaling $3.7 billion and more than 500 multi-family mortgage loans with outstanding balances totaling $1.8 billion. VHDA has a long history of strong financial performance and was the first HFA to be awarded "AA+" and "Aa1" long-term general obligation bond ratings by Standard & Poor's and Moody's Investors Service, respectively.

In summary, the provision in the OFHEO's proposed amendments to its Risk-Based Capital Rules which would increase the capital charge for holding AA-rated single family and multi-family mortgage revenue bonds will increase the cost of serving the housing needs of low and moderate income Virginians. Therefore, I am not in favor of the proposed change and encourage you to closely examine the rating criteria used by both Standard & Poor's and Moody's Investors Service to judge state housing finance authorities. The standards are quite high and the depression scenario stress tests require that VHDA survive without defaulting on any of its obligations. The outstanding historical performance of AA and AAA-rated HFA bonds supports this position.

Sincerely,

Susan F. Dewey
Executive Director

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