RBC(NPR2)-27

LISC

THE ENTERPRISE FOUNDATION

March 2, 2000

RECEIVED
MAR 10 2000

Ms. Anne E. Dewey
General Counsel
Office of General Counsel
Office of Federal Housing Enterprise Oversight
1700 G Street, NW, Fourth Floor
Washington, DC 20552

Dear Ms.Dewey:

We are very concerned about certain aspects of your proposed risk-based capital standards for Fannie Mae and Freddie Mac under the 1992 Federal Housing Enterprise Financial Safety and Soundness Act. Our concerns are particularly relevant to the mission and purpose of The Enterprise Foundation and the Local Initiatives Support Corporation (LISC), two of the largest nonprofit organizations in the country providing affordable housing for low-income families and individuals.

Since its launching in 1982, The Enterprise Foundation has helped provide over 100,000 homes for low-income families through a network of 1,500 nonprofits in 550 locations nationally. Enterprise has committed over $3.5 billion of private sector financing through grants, below market loans and equity investments which have leveraged a multiple of that number of additional public and private financing. It has directly affected the lives of over 250,000 low- and very low-income Americans.

In 20 years, LISC has raised $3.8 billion from the private sector to invest in low-income urban and rural areas through nonprofit community development corporations (CDCs). LISC has helped 1,700 CDCs to develop over 100,000 homes and 11 million square feet of commercial and community facilities. Last year alone, LISC provided over $600 million through 41 local programs and a national rural initiative.

Both Fannie Mae and Freddie Mac have been partners in our activities, and Enterprise and LISC have also actively sought for both organizations to provide more funding for low-income housing, nationally. We and others have aggressively pursued HUD to provide stretch affordability goals for these organizations to prudently pursue. Both organizations have been responsive.

Incidentally, LISC and Enterprise believe the interests of affordable housing and safety and soundness are very compatible, if carried out the right way. We have a long history of proving that thesis out. For instance, given past multi-family housing default history, Enterprise and LISC were confronted with the perception that risk capital for investments using the low-income housing tax credit for multi-family housing must be set at a very high level. That presumption was proven wrong over the last 10 years as LISC and The Enterprise Foundation each currently controls a very large, multi-billion dollar, multi-family portfolio with a miniscule default rate. Over time the market (in the returns demanded) has acknowledged that point. Similarly, low down payment loans, carefully underwritten, have performed within the tolerance level of mainstream products.

Our particular concerns in your proposed risk-based capital regulations are that certain activities critical to affordable housing will be severely curtailed due to the way the risk-based capital regulations are applied. In certain cases, it seems as if perception or excess caution may mitigate the important public mission of Fannie Mae and Freddie Mac. While we understand the absolute necessity for prudent, risk-based capital, there is an inevitable diminution in the ability and willingness to carry out that public mission as capital regulations impinge on products geared to the affordable housing market.

Specifically, low down payment single family mortgages are the lifeblood of the affordable housing market, and through a long operating history and more precise credit scoring and underwriting techniques, much more risk mitigation and understanding has evolved at both Fannie Mae and Freddie Mac. Each institution also carefully monitors its own portfolio performance since there are obvious direct connections to profitability. To apply more severe risk-based capital requirements to this part of the GSE's portfolio will have a chilling effect on the most important element in helping low-income families acquire their own homes.

Similarly, Enterprise and LISC both directly and indirectly have participated with Fannie Mae and Freddie Mac in innovative partnerships to reflect new approaches and new products in affordable housing. To the extent risk-based capital becomes an unknown or a problem for these innovations, they will be discouraged. Again, it is our belief that each GSE has been cautious in its allocated capital and own risk-based standards to manage its innovation and new product experimentation. Such activities should be encouraged, rather than discouraged, as they lead to new, profitable markets such as the low-income housing tax credits in multi-family or well underwritten, well performing high loan to value lending.

Finally, we would urge that risk-sharing arrangements be suitably reflected by fully recognizing counter party risk offsets in your risk-based regulations. To the extent other creditable organizations can participate in risk-sharing with Fannie Mae and

Freddie Mac and use their own balance sheets to reflect their portion of certain risks, more innovation, and new products will be developed based upon sound underwriting principles.

Certainly there are well-developed procedures and historical tests of reinsured market risks. To the extent others are able to lend their credit to affordable housing products, the true power of public institutions and the real estate industry can be brought to bear in affordable housing.

I appreciate your willingness to consider our concerns. I would be delighted to talk to you further regarding these issues at your convenience.

Sincerely

[signed: F. Barton Harvey III]

F. Barton Harvey III
Chairman of the Board
and Chief Executive Officer
The Enterprise Foundation

[signed: Michael Rubinger]

Michael Rubinger
President
and Chief Executive Officer
Local Initiatives Support Corporation