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By Electronic Mail and Courier

March 4, 2008

Alfred M. Pollard
General Counsel
Attention: Comments/RIN 2550-AA38
Office of Federal Housing Enterprise Oversight
Fourth Floor
1700 G Street, NW
Washington, DC 20552

Re: Risk-Based Capital Regulation – Loss Severity Amendment

Dear Mr. Pollard:

Freddie Mac respectfully submits these comments concerning the amendments proposed by the Office of Federal Housing Enterprise Oversight (“OFHEO”) that were published in the Federal Register on December 5, 2007.¹ The proposed amendments (the “Proposed Amendments”) would modify Appendix A to Subpart B of 12 C.F.R. Part 1750 (the “RBC Regulation”).

As OFHEO describes, the purpose of the Proposed Amendments is to enhance the accuracy and transparency of the calculation of RBC requirements, objectives that we fully support. The Proposed Amendments would accomplish those objectives by modifying the loss severity equations for defaulted single-family conventional and government-guaranteed loans and by amending the treatment of Federal Housing Administration (“FHA”) insurance in the RBC Regulation.² Specifically, the Proposed Amendments would (i) modify existing loss severity equations that are thought currently to overstate recoveries for defaulted low loan-to-value (“LTV”) conventional loans and for defaulted FHA and Veterans Administration (“VA”) loans; and (ii) amend a current provision that incorrectly treats FHA mortgage insurance for single-family loans as cancelled when the LTV falls below 78 percent. According to OFHEO, implementation of the Proposed Amendments would have increased Freddie Mac’s RBC requirement by \$5.4 billion as of the fourth quarter of 2006.

Freddie Mac supports changes to the RBC Regulation that are consistent with the principles enunciated previously by both OFHEO and Freddie Mac during the development of the regulation.³ Specifically, we believe that changes should (i) be consistent with the requirements of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992; (ii) appropriately tie capital to risk; (iii) be operationally workable; and (iv) accommodate innovation.

¹ 72 Fed. Reg. 68656 (Dec. 5, 2007).

² *Id.* at 68656-58.

³ See, e.g., speech of OFHEO Director Armando Falcon before the Mortgage Bankers Association of America’s Washington Leadership Conference (Mar. 25, 1999); Comment of Freddie Mac on the April 13, 1999 Notice of Proposed Rulemaking on Risk-Based Capital of the Office of Federal Housing Enterprise Oversight at pp. 2-3 (Mar. 10, 2000).

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In light of the principles listed above, Freddie Mac supports the Proposed Amendments with respect to low-LTV conventional loans. We agree that overall proceeds from sales of foreclosed low-LTV properties are unlikely to exceed interest costs and other expenses in a stressful credit environment. Furthermore, to the extent that mortgage insurance and/or credit enhancement agreements remain in force, their contractual terms would typically not allow claims in excess of losses.⁴

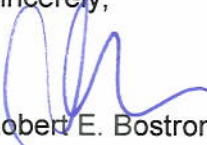
Freddie Mac also supports adoption of the Proposed Amendments that modify the loss severity equations and mortgage insurance provisions with respect to government-guaranteed loans. The proposed changes would model the contractual terms of the FHA and VA loan programs more accurately than the current RBC Regulation; would approximate closely how the programs would be expected to perform in the stress test scenarios; and would be operationally workable.

Notwithstanding our support of the Proposed Amendments, we would strongly encourage OFHEO to pursue a more holistic approach to future efforts to enhance the RBC Regulation, and to examine specifications that overstate losses as well as those that understate losses. We make this observation mindful that, in addition to the current Proposed Amendments, OFHEO intends to further update the data, methodologies and components of the RBC stress test.⁵

* * *

Thank you for providing us with the opportunity to comment on the Proposed Amendments.

Sincerely,



Robert E. Bostrom

⁴ We note, however, that the contractual terms of certain credit enhancements (e.g., defined-benefit mortgage insurance) could allow gains in the event of default, a possibility that is not contemplated by the Proposed Amendments. We recommend that OFHEO, as part of a more integrated approach to modifying the RBC Regulation, review the contractual terms of credit enhancements and insure their accurate representation in the stress test to the extent consistent with operational feasibility.

⁵ OFHEO FY 2008 Performance Budget p. 6 (Dec. 19, 2007; released Feb. 20, 2008).