From: "Stephen Lange Ranzini" - 12/02/2008 07:15:02 PM

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

Dear Sir or Madame:

It seems to me that one of the best ways to get the economy going again would be to spark a refi-boom by driving mortgage rates down. This would reward those individuals who have managed their financial affairs prudently and by putting extra cash in their pocket, cause additional spending by them throughout the economy. While progress in this direction has recently been made and 30-year fixed rates have dropped they are not yet at levels low enough to spark the refi boom that is required. Also, short term and adjustable rate mortgage backed securities issued by FHLMC and FNMA are still trading in the 5-5.50% range, and together with the record wide spreads of long term fixed rate mortgage rates over Treasury rates, this can only be explained by the fact that the market is doubtful that the current level of financial support granted them by the Federal Government is sufficient. Frankly, it probably is insufficient, since $100 billion for each GSE will not be sufficient to carry them through the losses in their current book of business, in my opinion. While the Fed has decided to purchase $500 billion of FNMA and FHLMC MBS securities, it would help to accomplish the Fed's goal to have other buyers active in the market, like banks. To this end I suggest the current policy has failed because fully government guaranteed alternatives exist (e.g. FDIC guaranteed paper) and the buyers of bonds are taking no risks with their money having been burned badly by investing in other "super safe" AAA rated bonds. This is the reason why these rates stay high and delay the drop in mortgage rates.

Therefore, I suggest the following:

1) A 0% risk weighting would be the best course of action to accomplish the intended policy of the Treasury and the Fed.

2) An unconditional guarantee of the existing MBS issued by FNMA and FHLMC should be issued and charged to FHLMC and FNMA at the same cost being charged the large banks (i.e. 25 b.p. for short debt and 75 b.p. for medium and long term debt.) or some lower rate as the Treasury sees fit from a public policy point of view.

Barring that, the policy will fail and the economy will continue to be dragged down by falling home prices.

Sincerely,

Stephen Lange Ranzini
President & Chairman
University Bank*
Ann Arbor, MI