February 1, 2001

Mr. Robert Seiler
Manager of Policy Analysis
Office of Federal Housing Enterprise Oversight
1700 G Street, NW, Fourth Floor
Washington, DC 20552

Dear Mr. Seiler:

Countrywide Home Loans, Inc. (“Countrywide”) appreciates this opportunity to provide its views with respect to the request of the Office of Federal Housing Enterprise Oversight (“OFHEO”) for public comment regarding the systemic risks that Fannie Mae and Freddie Mac (“the Enterprises”) may pose to the financial system. We recognize that the issues surrounding systemic risk posed by the operations of the Enterprises are important, and their periodic assessment by financial regulators is entirely appropriate. In this regard, we would urge OFHEO to finalize rules regarding capital adequacy relating to the Enterprises. Finalizing these regulations will provide certainty as to the standards required to be maintained by the Enterprises as well as comfort to the financial system with regard to the continued strength of the Enterprises’ capital positions.

In summary, we believe that the Enterprises’ respective capital structures and business operations, coupled with the regulatory framework and level of regulatory oversight provided by OFHEO, do not present any meaningful source of systemic risk to the financial system. On the contrary, Countrywide believes that, so long as the Enterprises maintain their strong capital positions consistent with the rules promulgated by OFHEO, they represent a significant source of strength for the nation’s financial system in general and for the liquidity of the home mortgage market in particular.

From a credit risk management standpoint, Fannie Mae and Freddie Mac both enjoy very favorable fundamentals from a safety and soundness perspective. Securities backed by residential mortgages, as a class of investment, are very safe, standardized and liquid. The Enterprises’ mortgage portfolios are diversified across the entire breadth of the United States and its homeowning public, and the credit quality of their portfolios is of prime grade. Risk exposure is further mitigated by mortgage insurance and recourse arrangements. Thus, with respect to asset quality, the Enterprises appear well positioned to weather any but the most extreme catastrophic economic environment.

Fannie Mae, of course, suffered heavy losses during the early 1980s as the result of being unprepared for that era's high interest rates, and that experience led to profound and positive changes in its approach to interest rate risk management. We believe that both Enterprises have demonstrated that each is appropriately configured to cope successfully with any credible interest rate scenario. They spend a great deal of time, effort and resources in assuring that their investments and liabilities are duration-matched and will perform similarly in various interest rate circumstances. Of course, we assume that, as part of its regulatory oversight, OFHEO will periodically review the Enterprises' ability to successfully navigate through various interest rate environments.

Given the Enterprises' risk profile, their capital structure appears solid, with $35.6 billion in equity capital between them. Moreover, they are unique among regulated American financial institutions in being required to meet a stress test that contemplates a ten-year nationwide depression coupled with dramatic, protracted interest swings. In effect, the Enterprises must maintain 130 percent of the capital needed to survive the stress period.

On the regulatory front, the Enterprises appear to be very competently supervised. We encourage OFHEO to continue building the strength of this regulatory team in order to meet the examination/supervision challenges facing them. Given the important role that the Enterprises play in our financial system, OFHEO examiner levels should parallel those that the banking agencies would assign to examine the very largest and most complex commercial banks. We urge OFHEO to continue to respond to its regulatory responsibilities with prudence and professionalism.

We note as well that the Enterprises recently announced voluntary steps to improve the level of information provided by them to OFHEO and to the public which should enhance market discipline, and, consequently, safety and soundness. These steps will include issuing subordinated debt that, together with core capital, will amount to four percent of on-balance sheet assets; maintaining enough liquidity to meet obligations even if the Enterprises were to be denied access to the debt markets for three months; complying on an anticipatory basis with the 1992 statutory risk-based capital stress test in advance of OFHEO's implementing final regulations; making monthly disclosures of the effect on their mortgage portfolios of interest rate changes and making quarterly disclosures of the financial implications of an immediate five percent decline in U.S. home prices; and obtaining and disclosing annually a rating that will assess the Enterprises' risk to the government.

With the focus on the Enterprises' safety and soundness, we suggest that the Enterprises are in actuality a source of strength for the financial system. In particular, they provide depository institutions with a source of debt securities or MBS that are a more diversified and prudent alternative to holding whole home mortgage loans. The 1998 credit crunch starkly illustrated the Enterprises' value in providing liquidity to the mortgage market when they stepped in at a critical juncture to purchase a record number of mortgages and MBS for their respective portfolios.

Again, we appreciate this opportunity to comment. We look forward to the results of the study, which we are confident will underscore the safety and soundness, and national importance of the organizations you regulate.

Sincerely,

[signed: Sidney Lenz]
Sidney Lenz