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December 15, 2000

Mr. Robert S. Seiler, Jr.
Manager of Policy Analysis
Office of Federal Housing Enterprise Oversight
1700 G Street NW, fourth floor
Washington, DC 20552

Subject: *Solicitation of Public Comments on Systemic Risk*

Dear Mr. Seiler:

On behalf of the Shadow Financial Regulatory Committee, I would like to call to your attention Statement 165 of the Committee adopted on December 4, 2000, and that statement's relevance to the study of systemic risk that your office has undertaken and on which you have requested public comment. I have attached a copy of the statement.

Paragraph 4 of the statement notes that unlimited bank investment in the securities of Fannie Mae and Freddie Mac, among other GSEs, "might be creating systemic risk." However, the statement continues, "[i]t is difficult to evaluate whether this is a legitimate concern without better information about bank holdings of GSE securities." This conclusion points to a substantial deficiency in the information available to policymakers: the call reports that banks must file with their federal bank supervisors do not provide sufficient detail concerning banks' holdings of GSE securities; as a result, it is not possible to determine whether these holdings might represent a mechanism by which financial distress at one or more of the GSEs might be transmitted to the financial system at large.

Accordingly, the Shadow Committee urges that bank call reports be changed so as to permit policymakers to make an appropriate valuation of the systemic risk potential represented by the GSEs.

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In addition, the Shadow Committee also cited—as another possible initiative for bank supervisors—that bank supervisors place prudential limits on bank investment in GSE securities, as a safety and soundness measure analogous to the loan-to-one-borrower limitations that are currently imposed on banks. Such a step—if the limit were a sufficiently small percentage of total bank capital—would substantially reduce the likelihood that GSEs financial difficulties might infect other financial institutions.

If you have any questions concerning the statement or the contents of this letter, please contact me or any other member of the Committee.

Sincerely,

[signed George G. Kaufman]

George G. Kaufman

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