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January 29, 2001

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

Re: Solicitation of Public Comment on Systemic Risk
65 Fed. Reg. 64718-64720 (October 30, 2000)

Dear Mr. Seiler

The Homeownership Alliance welcomes this opportunity to provide our input on the question of systemic risk as it applies to Fannie Mae and Freddie Mac.

The former secretaries of the Department of Housing and Urban Development, Jack Kemp and Henry Cisneros, have noted on our web site:

> "America has created the most remarkable system for promoting homeownership the world has ever known. It is a vibrant system that benefits consumers. It links home builders, realtists and Realtors, mortgage lenders, government agencies, secondary market companies, mortgage insurers, community groups and nonprofit organizations, all in a shared desire to expand homeownership opportunities to more American families. The role of the secondary market in this system is vital, and unique to America. Without the American secondary market, the 30-year

> fixed-rate mortgage that we take for granted would be as rare as it is in other developed nations."[1]

Over the last year, some critics have questioned the level of America's investment in housing. Still others have and will try to make the argument to OFHEO that Fannie Mae and Freddie Mac create systemic risk. Those that say that do so either because they are hostile to homeownership or because they have competitive needs to try to hamper the two most efficient private sector engines for homeownership. The Homeownership Alliance hopes that OFHEO will scrutinize the motives of those who make such claims.

Any objective analysis of the roles played by Fannie Mae and Freddie Mac would show that they in fact reduce systemic risk while anchoring a housing finance system in which consumers have the upper hand.

There are multiple manifestations of this point:

1. As opposed to local lenders, the secondary market mixes and matches mortgages from all over the country. This disperses the otherwise concentrated credit risk from local economic slumps safely across a wide universe of entities. As mortgage debt outstanding continues to grow at a pace of 6 percent a year – a rate controlled by consumers and not the lending industry – Fannie Mae and Freddie Mac are second to none in managing the risks associated with that debt.

2. As former Secretaries Kemp and Cisneros mentioned, the 30-year, fixed rate mortgage simply would not exist were it not for Fannie Mae and Freddie Mac. You only need look to other industrialized countries, none of which have a secondary market, to see this. Adjustable rate mortgages dominate these countries and down payment requirements in many countries limit homeownership to those with considerable means. As you know, adjustable rate mortgages pose more credit risk than fixed-rate mortgages as borrowers always face the prospect of rising monthly mortgage payments. Fortunately, American homeowners have the peace of mind of knowing their monthly mortgage payment can be the same every month for 30 years.

3. The desire of Americans for fixed rate financing has to be matched with willing providers of that financing. In general, it is more difficult for banks

[1] http://www.homeownershipalliance.com/guestessay1.html

and thrifts to offer fixed-rate financing because of the short-term characteristics of the federally insured retail deposits on which they rely for much of their funds. The secondary market, on the other hand, funnels funds from willing private investors to the borrowing public seeking fixed-rate financing.

4. A strong secondary market protects homeowners and buyers from economic shocks such as global credit crunches and local recessions. For example in the 1980s when thrifts in California, Texas and Oklahoma were failing in large numbers, Fannie Mae, Freddie Mac and the Federal Home Loan Bank System kept mortgage money flowing in those states. In 1998, when a credit crisis shook the financial world, homebuyers never felt it because Fannie Mae and Freddie Mac raised billions of dollars in capital, and kept it flowing to lenders.

Many of those who question the level of investment in housing point to America's historically high homeownership rate as evidence of their point. While a 68 percent homeownership rate is impressive, the homeownership rate among minorities still less than fifty percent. As America moves into the 21st century, minority families should be given the chance to reap the benefits of homeownership as well. The continuation of a strong secondary market – anchored by Fannie Mae and Freddie Mac – is the best way to help them achieve that dream while minimizing risks. For the sake of these families, we should do nothing to harm what has made America's housing finance system the envy of the world.

Sincerely,

[signed: Richard H. Davis]

Richard H. Davis

President

The Homeownership Alliance, Inc.