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THE HONORABLE J.C. WATTS  
CHAIRMAN

MIKE HOUSE  
EXECUTIVE DIRECTOR

September 13, 2006

Susan Jacobs  
Chief Strategic Planning Officer  
OFHEO  
1700 G Street, NW  
Washington, DC 20552

Re: Comment On OFHEO Five-Year Strategic Plan

Dear Ms. Jacobs:

FM Policy Focus is pleased hereby to comment on the five-year strategic plan released for public comment by the Office of Federal Housing Enterprise Oversight (OFHEO) on August 31. FM Policy Focus represents trade associations in the financial services and mortgage insurance arenas. As such, we have a strong interest in ensuring that government-sponsored enterprises (GSEs) are effectively supervised to ensure prudential operation and charter compliance. We thus strongly support the OFHEO strategic plan with regard to GSE supervision. We discuss specific aspects of this portion of the plan in more detail below, but we urge you to take rapid action on the priority items highlighted in your plan, doing as much of this as quickly as possible to protect taxpayers and the financial system more generally from GSE risk.

We also strongly support the section of the strategic plan focused on OFHEO action to win final enactment of legislation overhauling GSE regulation. We believe, like you, that OFHEO now lacks essential powers and that divided authority in the critical arena of charter compliance has led to many high-risk GSE ventures far beyond their statutory secondary-market mission.

Specific comments with regard to the plan are as follows:

1. High-Risk Ventures

The draft strategic plan notes that OFHEO lacks charter and mission compliance authority. Sadly, we concur – a major reason we strongly support legislative change. However, the plan also rightly states that OFHEO has clear safety-and-soundness authority over GSE ventures. This power extends to all GSE activities – contemplated new ones and any now underway. We urge OFHEO to take the

broad view of safety and soundness expressed by the bank regulatory agencies in their supervision-by-risk framework. This would encompass:

- credit risk;
- interest-rate risk;
- market risk;
- operational risk;
- concentration risk;
- compliance risk;
- strategic risk;
- legal risk; and
- reputational risk.

Your plan notes that the agency contemplates “targeted” examinations for emerging-risk areas. We urge OFHEO to focus on the less-traditional risks in the list above with regard to a wide range of current and prospective GSE ventures.

One recent action by Fannie Mae points to the urgency of this review. The GSE on August 8 was assigned a patent from the U.S. Patent Office covering a wide range of new mortgage ventures. In fact, the patent is not confined to residential mortgage loans – it purports to cover all loans. It also clearly violates the express charter prohibition against loan origination by putting what it characterizes as the “secondary market participant” in direct contact with the borrower. It further addresses a mortgage product expressly defined to circumvent charter restrictions on buying loans with loan-to-value ratios over 80% without robust third-party credit enhancement. We urge OFHEO to make clear that this patent violates the charter and may not be acted upon.

Activities like those contemplated by Fannie Mae clearly pose operational risk because of the serious internal-control problems evident at both GSEs. They further present serious compliance risk because they are express charter violations. Finally, many new ventures pose potential reputational risk, and these too should come under immediate OFHEO supervisory review.

To block high-risk ventures, OFHEO should solicit comment on any and all activities in which the GSEs – both Fannie Mae and Freddie Mac – engage that may pose undue risk in any and all of the above areas. Further, we urge you to require the GSEs to submit to you in advance any contemplated new programs, products and activities. OFHEO can and should then seek public comment on these ventures to ensure you understand the full scope of risks they may present.

## 2. Risk-Based Capital

FM Policy Focus strongly supports the rewrite of current risk-based capital rules discussed in the OFHEO strategic plan. We further endorse the suggestion that capital requirements will be expanded to cover the full range of risk, with particular attention to operational and concentration risk. For example, to the degree a GSE holds a portfolio that is hedged with a limited number of counterparties, additional capital should be added to reduce such portfolio-related risk. We do not believe that any version of the pending Basel II rules is appropriate for the GSEs because of their significant concentration risk by virtue of their – at least for now – exclusive focus on mortgages.

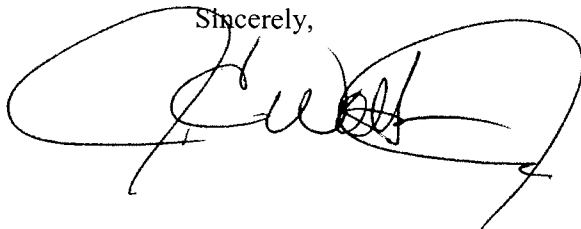
## 3. Additional Disclosures

FM Policy Focus strongly supports the new call reports proposed in the strategic plan. The Basel Committee and pending implementing U.S. rules rely on three “pillars.” One of these is “market discipline” – that is, disclosures to ensure that market participants have a clear view of current and emerging risks that, in turn, adds to the information available to supervisors. Call reports on a wide range of criteria are particularly important for the GSEs. Unlike bank holding companies, they now do not have financial statements suitable for registration with the Securities and Exchange Commission (SEC). The bank regulators are now considering adding disclosures beyond the SEC-required ones, but neither Fannie Mae nor Freddie Mac is even close to providing timely SEC disclosures, let alone those contemplated by the bank regulators. As a result, the market has little information on which to evaluate or compare Fannie Mae and Freddie Mac. The AAA rating each enjoys is clearly the result only of their implicit federal guarantee, exacerbating potential systemic and taxpayer risk.

Clear and transparent disclosures that are at least comparable to those required from private companies and that are uniform for both Fannie Mae and Freddie Mac would be a major contributor to enhanced market discipline, and we urge OFHEO to require these disclosures, following public comment, as expeditiously as possible.

In conclusion, we support the proposed strategic plan and urge action on it as quickly as possible. We would like again to thank you for this strategic plan and echo our support not only for the proposed safety-and-soundness activities, but also for quick action on meaningful statutory reform.

Sincerely,

A handwritten signature in black ink, appearing to read "Susan Jacobs", written over the word "Sincerely,".