



*OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT*  
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3800

---

July 11, 2000

The Honorable Richard H. Baker  
Chairman  
Subcommittee on Capital Markets, Securities and  
Government Sponsored Enterprises  
Committee on Banking and Financial Services  
U.S. House of Representatives  
2129 Rayburn House Office Building  
Washington, DC 20515

Dear Mr. Chairman:

This letter is to provide you with an update on the progress the Office of Federal Housing Enterprise Oversight (OFHEO) is making in finalizing our Risk-Based Capital (RBC) Regulation (the rule).

I am pleased to inform you that we have completed a comprehensive review of all of the comments received and the issues raised therein, and we are on track to complete the Rule by the end of the year. At that time, we will submit the Rule to the Office of Management and Budget (OMB) for final clearance and publication in the Federal Register.

The comment review process included consideration of comments received on both the First and Second Notices of Proposed Rulemaking (NPR1 & NPR2). NPR1 addressed the Benchmark Loss Experience and House Price Index issues. NPR2 submitted for public comment the entire proposed Risk-Based Capital Standard.

OFHEO's comment period on NPR2 closed on March 10 of this year, after nearly 11 months. The comment period was extended twice at the request of several interested parties who wanted more time for their review of the proposal. This was immediately followed by a brief 30-day comment rebuttal period, which provided all interested parties the opportunity to comment on others' comments. Upon completion of this extended comment period, we reviewed over 70 sets of technical comments totaling nearly 2000 pages. For the last four months, we have conducted systematic daily discussions on the suggestions made in the comments received. We have thoroughly considered all comments and resolved how to appropriately respond to each one.

Page Two  
The Honorable Richard H. Baker  
Chairman  
Subcommittee on Capital Markets, Securities, and  
Government Sponsored Enterprises  
Committee on Banking and Financial Services

The only task remaining now is to draft the final Rule and carefully revise the computer model, which runs the stress test. We are working on a dual track of drafting regulatory language as well as the final computer model. We are proceeding as expeditiously as possible and with all necessary diligence to ensure that the state-of-the-art stress test model runs properly.

The final product will be a risk-based capital rule which accurately ties capital to risk, accommodates innovation, and is operationally workable for the entities that will be bound by it – Fannie Mae and Freddie Mac. To ensure workability and transparency, it is our intent to provide both Enterprises as well as the general public with the source code used by the computer model, thus eliminating any replication necessity.

I again want to thank you for your continued support of OFHEO and your encouragement in completing this important task. If I can be of further assistance, please do not hesitate to call.

Sincerely,

[signed: Armando Falcon, Jr.]

Armando Falcon, Jr.  
Director

Copy: The Honorable Paul Kanjorski  
Ranking Member  
Subcommittee on Capital Markets, Securities and  
Government Sponsored Enterprises