



25 South Charles Street  
Mail Code: 101-617  
Baltimore, MD 21201

January 22, 2002

Mr. Alfred Pollard  
General Counsel  
Office of Federal Housing Enterprise Oversight  
Fourth Floor  
1700 G Street, NW  
Washington DC 20552

Dear Mr. Pollard:

As a Fannie Mae DUS Lender, I appreciate the opportunity to comment on the revised Risk-Based Capital Rule. As revised, the proposed rule more accurately matches capital requirements with credit risk and does so in a way that is mindful of not putting GSE's and their partners at a competitive disadvantage. After reviewing the proposed revisions, I would like you to consider a few additional revisions that would improve the rule further.

First, in regard to adjusting capital requirements to reflect counterparty risk it seems that the "haircut" requirements are still too high relative to the risk and the difference between the levels is still too great. One reason the counterparty adjustments are high is because the stress test uses extreme loss assumptions. A more accurate counterparty adjustment could be developed by using the same loss assumptions used to stress other provisions in the rule (as seems to be supported by the language mandating the Risk-Based Capital Rule).

Secondly, I urge you to consider another revision to the counterparty risk provisions so that they more accurately reflect the true value of DUS servicing income as it relates to assessing counterparty risk. The Fannie Mae DUS servicing fees includes a premium as compensation for sharing the credit risk. Given that the servicing fee premium would be available to Fannie Mae to offset losses, Fannie Mae recognizes this value in its assessment of DUS lender counterparty risk, however, the proposed Risk-Based Capital Rule does not recognize the value of the servicing premium and therefore ignores a real and critical source of financial support that is available to offset counterparty risk.

Finally, I want to reiterate my support for the revised ARM and “underwater DSC” flags. These changes mitigate the punitive levels of capital assigned to ARM loans and reduce the volatility of capital requirements. I also strongly support OFHEO’s efforts to accurately model the risks associated with low income housing loans. The proposed changes will help support the GSE’s critical role in providing safe, decent and affordable housing to persons earning low and moderate incomes.

Thank you for your time.

Sincerely,

Tari L. Flannery  
President