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May 12, 2023

Sandra Thompson
Director
Federal Housing Finance Agency
400 7th St SW
Washington, DC 20219

RE: Enterprise Regulatory Capital Framework Amendments; RIN 2590-AB27

Dear Director Thompson,

The Independent Community Bankers of America (ICBA)¹ appreciates the opportunity to provide comments on the Federal Housing Finance Agency's (FHFA) proposed amendments to the Enterprise Regulatory Capital Framework (ERCF). ICBA has long supported FHFA's efforts to structure strong capital requirements for Fannie Mae and Freddie Mac (the Enterprises) to protect taxpayers and to ensure the secondary market is safe and sound and liquid in all markets, and for all borrowers, regardless of economic conditions. We feel the ERCF generally meets these goals. However, we also recognize that the Enterprises are complex financial institutions and that this will be an ongoing process as FHFA continues to modify the ERCF to balance the need to maintain strong levels of capital with the goal of maintaining market liquidity, especially as it relates to supporting the Uniform Mortgage-Backed Securities (UMBS).

As FHFA considers changes to the ERCF, ICBA also strongly encourages FHFA to resume discussions with the U.S. Treasury to resolve the warrants in the Preferred Stock Purchase

¹ The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services. With nearly 50,000 locations nationwide, community banks employ nearly 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding \$5.8 trillion in assets, \$4.8 trillion in deposits, and \$3.8 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org.

The Nation's Voice for Community Banks.®

WASHINGTON, DC
1615 L Street NW
Suite 900
Washington, DC 20036

SAUK CENTRE, MN
518 Lincoln Road
P.O. Box 267
Sauk Centre, MN 56378

866-843-4222
www.icba.org

Agreements (PSPAs), which will ultimately ensure safety and soundness of the housing system and allow the Enterprises to rebuild capital more quickly by raising outside equity.

ICBA Comments

ICBA supports the proposed reduction to five percent from the current risk weight of twenty percent when applied to exposures to the other Enterprises in a commingled security. We also support a reduction to fifty percent from the current one hundred percent credit conversion factor as applied to these same exposures, given that they represent off balance sheet guarantees. These changes will help maintain UMBS liquidity and will not penalize the commingling of Enterprise securities. A key benefit of creating the UMBS structure was to permit the commingling of loans from either Enterprise, thereby enhancing market liquidity and removing any pricing advantages or disadvantages between the Enterprises. Excessive capital charges would needlessly increase the cost of credit and could constrain liquidity in the UMBS market.

Additionally, ICBA continues to call on the FHFA and the U.S Treasury to resolve the PSPAs' warrants, which would allow the Enterprises to access the capital markets to raise outside equity. As currently structured, the Enterprises can only build capital through retained earnings. Given the large amounts of capital needed to be considered fully capitalized, it will take at least ten years for the Enterprises to meet those requirements and be released from conservatorship. The lack of progress in resolving this issue by both FHFA and U.S. Treasury endangers the safety and soundness of both Enterprises and could pose a threat to the stability of the mortgage market. We urge both FHFA and Treasury work to resolve this issue and put the Enterprises on a clear path to fully recapitalize and exit conservatorship as quickly as possible.

ICBA appreciates the opportunity to comment on the proposed amendments to the ERCF and looks forward to working with FHFA on this issue as it progresses. Please contact the undersigned if you have any questions regarding this letter.

Sincerely,

Ron Haynie
Senior Vice President- Housing Finance Policy

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WASHINGTON, DC
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Washington, DC 20036

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