

**Congress of the United States**  
**Washington, DC 20515**

June 1, 2016

Hon. Mel Watt, Director  
Federal Housing Finance Agency  
Constitution Center  
400 7th Street, SW  
Washington, D.C. 20024

Hon. Jack Lew, Secretary  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, D.C. 20220

Dear Director Watt, Secretary Lew:

We take this opportunity to express our concerns with your agencies' policy of requiring Freddie Mac and Fannie Mae ("the GSEs") to operate without adequate capital. We appreciated Director Watt's recent remarks at the Bipartisan Policy Center focusing on the very serious risks to the GSEs' operations, and by extension to the overall housing finance market, if they are required to completely eliminate their capital buffers. We hope that these concerns will lead you to reassess this course of action.

As noted in Director Watt's remarks, "Fannie Mae and Freddie Mac are currently unable to build capital under the provisions of the PSPAs." Fortunately, the Housing and Economic Recovery Act (HERA) of 2008 provides a solution to this problem by requiring the FHFA Director to ensure that the GSEs are adequately capitalized. HERA includes a number of provisions expressing Congress' intent that the GSEs be operated in a safe and sound manner. In fact, under HERA, the FHFA Director has an express duty to ensure that the GSEs maintain adequate capital. But, as further noted in Director Watt's remarks, "starting January 1, 2018, the Enterprises will have no capital buffer and no ability to weather quarterly losses, [including] a number of non-credit related factors that could lead to a loss and result in a draw from Treasury." The fact that the GSEs are currently in conservatorship, and that Congress has not enacted further legislation post-HERA, does not justify an agreement between FHFA and the U.S. Treasury to ignore HERA's mandate.

The lack of stability and strength engendered by eliminating the GSEs' capital buffer has particularly serious consequences for the residents of underserved markets across the country. The GSEs are the largest participants in the mortgage market today. Yet, they are unable to make the types of investments in affordable housing and underserved areas that they once did prior to conservatorship. While the GSEs are required to meet annual Affordable Housing Goals, which FHFA has consistently deemed feasible, both entities have failed to meet one or more goals in


the past several years, and their lending to minority homebuyers in particular is notably diminished. They can also no longer provide the leadership and expertise in addressing our affordable housing challenges they once did, a significant void that has not been filled by any other market participant. And even the investments they are authorized to make, most notably to the National Housing Trust Fund and Capital Magnet Fund, could be suspended under your policy that suspension occurs in the event that either GSE is forced to make a draw or it appears as though an investment would cause a draw. The GSEs are finally contributing to these important funding vehicles, including for extremely low income families, eight years after they were first authorized in HERA. We sincerely hope that they will not once again be put on hold as a result of capital concerns that your agencies have the power to correct.

Requiring two institutions that are so consequential to the housing market to be buffeted from quarter to quarter is unproductive and unnecessary. We look forward to your reassessment of this policy. Thank you for your consideration of this letter.

Sincerely,

  
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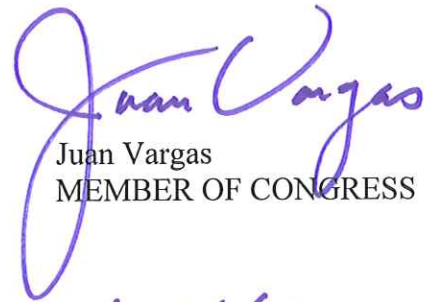
  
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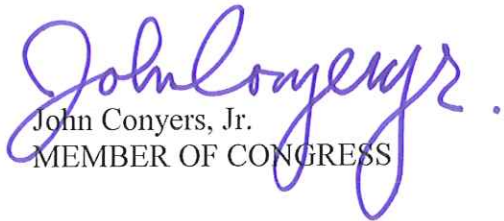
  
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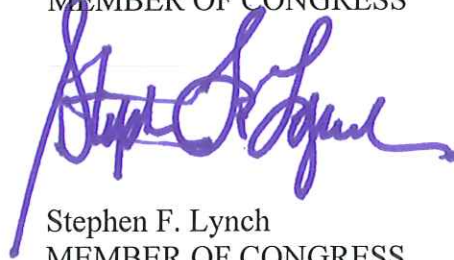
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