

United States House of
Representatives
Committee on
Financial Services

2129 Rayburn House
Office Building
Washington, D.C. 20515

December 2, 2015

The Honorable Melvin L. Watt
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

Dear Director Watt:

We write regarding the transactions that Fannie Mae and Freddie Mac (the Enterprises) enter in order to share mortgage credit risk with private market participants. While we strongly support these transactions as a mechanism for mitigating credit risk to the Enterprises and U.S. taxpayers, we are concerned that the focus for these transactions has been too heavily concentrated on back-end credit risk sharing. Accordingly, in order to expand the scope of risk sharing and to avoid favoring one approach to risk sharing over another, we believe that the Federal Housing Finance Agency (FHFA) should require the Enterprises to also explore and engage in diverse forms of front-end credit risk sharing.

FHFA's risk sharing focus to date has primarily involved Enterprise transactions with third parties that occur after the Enterprises have acquired large pools of mortgages and thereby assumed large amounts of credit risk. Having taken on such risk, the Enterprises then must decide how to reduce that risk and how to select the best counterparties to work with to share that risk.

While such back-end credit risk sharing is important and beneficial, there are also benefits to be gained from front-end transactions, where mortgage credit risk is assumed by private market participants before the Enterprises acquire the mortgages. Such front-end credit risk sharing has the advantage of preventing the Enterprises from assuming risk that they may not be able to adequately shed during times of stress. It also reduces the centrality of the Enterprises' role in finding ways to distribute the much larger amount of risk that they could otherwise accumulate. In addition, front-end risk sharing is scalable to originators and servicers of all types and sizes using processes and techniques already familiar to mortgage market stakeholders. Despite these benefits, front-end risk sharing

appears not to have been fully explored by FHFA and the Enterprises, even though it could, according to FHFA's own report, provide an additional source of private capital.

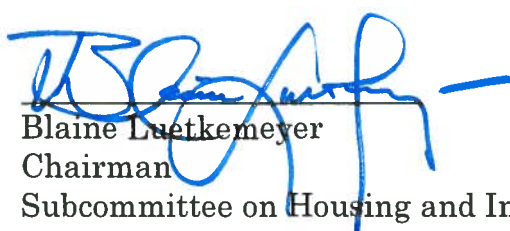
In this context, FHFA's 2015 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions (Scorecard) describes the benchmarks against which the Enterprises' progress in achieving the goals set forth in the Strategic Plan will be measured. The Scorecard appropriately requires the Enterprises to "reduce taxpayer risk" by "increasing the role of private capital in the mortgage market." With respect to single-family risk sharing, the Enterprises are directed to enter into credit risk transfers for single-family mortgages; yet there are no comparable goals for front-end risk sharing.

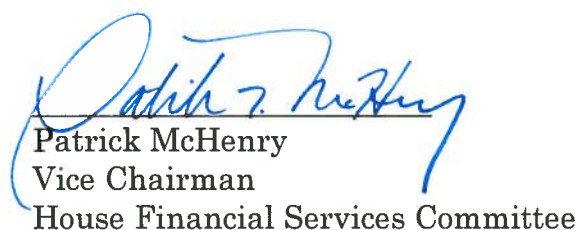
We recommend that FHFA establish specific near and long-term quantitative goals with respect to front-end risk sharing, just as FHFA has done in the Scorecard for back-end risk sharing transactions. Further, the Enterprises should be required to publicly report their progress in satisfying all quantitative goals in order to communicate to the markets and U.S. taxpayers the full extent to which credit risk has been shared with a diverse group of private sector participants.

We support a robust housing finance system and believe that private capital should serve as its cornerstone. To that end, the Enterprises should take full advantage of sound approaches to risk sharing transactions, with greater consideration given to front-end risk sharing.

We appreciate your consideration and look forward to your timely response.

Sincerely,


Blaine Luetkemeyer
Chairman
Subcommittee on Housing and Insurance


Patrick McHenry
Vice Chairman
House Financial Services Committee