



November 26, 2008

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the
Federal Reserve System
20th Street & Constitution Ave., NW
Washington, DC 20551

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 1-5
Washington, DC 20219

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attention: OTS-2008-0002

Re: Minimum Capital Ratios, Capital Adequacy Guidelines; Capital Maintenance, Capital: Treatment of Certain Claims on, or Guaranteed by, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) 73 Federal Register 63656; October 27, 2008; July 29, 2008; **OCC**: Docket ID: OCC-2008-0016, RIN 1557-AD18; **FRB**: Docket No. R-1335; **FDIC**: RIN 3064-AD34; **OTS**: Docket No. OTS-2008-0014, RIN 1550-AC24

Ladies and Gentlemen:

The Risk Management Association (RMA) is pleased to comment on the Notice of Proposed Rulemaking (NPR) issued by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision (together, the Agencies) that proposes new Treatment of Certain Claims on, or Guaranteed by, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. As the Agencies are aware, RMA has been actively involved in the effort to reform the regulatory capital guidelines for the past decade and fully supports a more risk-sensitive alignment of regulatory capital standards. Exposures that have higher risk should require more capital; and conversely, lower-risk exposures should require less capital.

In light of the additional support provided on September 7, 2008 by the Federal Government for these Government Sponsored Enterprises ("GSEs") any claims on, or guarantees issued by, the GSEs should indeed be subject to a substantially lower risk-weight than the current 20%, for risk-based capital purposes. Therefore, we highly support the proposal and thank the regulatory agencies for acting promptly on this important issue.

We would like to highlight that we address two additional issues related to the proposal that are of vital importance:

a. The NPR does not appear to pertain in equivalent fashion to holding of claims on the GSEs within the trading account as well as the banking book.

b. It is vitally important to make the reduction in risk weight applicable to 4th Quarter 2008 financial reports issued by banks and bank holding companies to which the risk-weights apply.

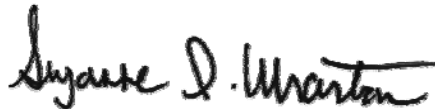
In our response, we also suggest that an even lower risk-weight may be appropriate depending on the nature of the guarantee.

Please feel free to contact Ed DeMarco at 215-446-4052 or via email at edemarco@rmahq.org or Sue Wharton, at 215-446-4089 or via email at swharton@rmahq.org.

Sincerely yours,

Handwritten signature of Edward J. DeMarco in black ink, featuring a stylized 'E' and 'D'.

Edward J. DeMarco
General Counsel

Handwritten signature of Suzanne I. Wharton in black ink, written in a cursive style.

Suzanne I. Wharton
Associate Director, Strategic Learning and Research

Response to the U.S. Notice of Proposed Rulemaking

Minimum Capital Ratios; Capital Adequacy Guidelines; Capital Maintenance; Capital:
Treatment of Certain Claims on, or Guaranteed by, the Federal National Mortgage Association
(Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac)

Risk Management Association

Capital Working Group

November 25, 2008

The RMA Capital Working Group¹ appreciates this opportunity to comment on the Notice of Proposed Rulemaking (NPR) to reduce the risk weight, for regulatory capital purposes, of certain claims on, or guaranteed by, Fannie Mae and Freddie Mac.

Introduction and summary

In light of the additional support provided on September 7, 2008 by the Federal Government for these Government Sponsored Enterprises (“GSEs”) any claims on, or guarantees issued by, the GSEs should indeed be subject to a substantially lower risk-weight than the current 20%, for risk-based capital purposes. Therefore, we highly support the proposal and thank the regulatory agencies for acting promptly on this important issue. Below, we provide a brief discussion of the change in status of the GSEs and conclude with a request to address two issues related to the proposal that are of vital importance:

- a. The NPR does not appear to pertain in equivalent fashion to holding of claims on the GSEs within the trading account as well as the banking book.
- b. It is vitally important to make the reduction in risk weight applicable to 4th Quarter 2008 financial reports issued by banks and bank holding companies to which the risk-weights apply.

Background

As noted in the proposed rulemaking, the Preferred Stock Purchase Agreement (“PSPA”) achieves, as a consequence of the capital purchases, the maintenance of a positive net worth at each of the GSEs. Additionally, as noted in the Treasury’s September 7 release, the PSPA commitment, in the context of the conservatorship, eliminates any mandatory triggering of receivership.

Perhaps most importantly, the PSPA commitment is scheduled to amount to a permanent return of each GSE to a smaller-sized, stand-alone institution, which, in the context of the \$100B capital injection into each GSE, will be extremely well-capitalized. In particular, the PSPA calls for each GSE to reduce its mortgage and mortgage-backed portfolio down to \$250B or less over a period of time that will last at least until 2021.² Thus, the PSPA is a long term program, which when coupled with the 79.9% government ownership in the form of the required stock warrants, means that the GSEs are being transformed into very much smaller, essentially government-owned vehicles.

For these reasons, it would be appropriate for the banking agencies to adopt a 0% risk weight for both banking and trading book exposures if, in fact, the U.S. Government is effectively providing explicit support to the holders of debt and MBS issued or guaranteed by Fannie Mae and Freddie

¹ The Capital Working Group of the Risk Management Association consists of senior officers responsible for credit risk measurement, Economic Capital measurement, and implementation of Basel II Advanced capital requirements. The institutions in the Group and its staff members contributing to this response are listed in an Appendix.

² The GSEs are to bring each of their portfolios down to \$850B by year-end 2009, then reduce this further by 10% per year. This staged reduction in size could not meet the \$250B objective until sometime in 2021. Meanwhile, the \$100 billion in new preferred stock at each institution, which could grow each year through the accumulation of scheduled dividends, would become an ever increasing percentage of GSE assets.

Mac. If the Agencies do not consider these claims to be fully supported by a U.S. government guarantee with a 0% risk weighting, then we support the 10% risk weight and equivalent treatment of corresponding GSE claims in the trading account beginning with the fourth quarter 2008 reporting period.

Concerns with implementation of the current proposal

- a. Equivalence of banking book and trading account capital charges. Under the current Market Risk Amendments, institutions that hold GSE-supported obligations within the trading account must apply a specific-risk capital charge to such obligations. If the institution does not use internal models to measure specific-risk of covered debt positions within the trading account, such assets must be assigned a specific-risk capital allocation as shown in Table 2, Section 5, Specific Risk, of the Capital Adequacy Guidelines (Appendix to Title 12, Part 208, CFR) -- Market Risk Measure. The “Qualifying” category in the regulation’s Table 2 below (which pertains to the GSEs) shows 3 different weighting factors depending on remaining contractual maturity:

Table 2: Specific Risk Weighting Factors for Covered Debt Positions

Category	Remaining Maturity	Weighting Factor (in percent)
Government	n/a	0.00
Qualifying	6 months or less	0.25
	Over 6 months to 24 months	1.00
	Over 24 months	1.60
Other	n/a	8.00

Equivalency between the banking book and the trading account should be maintained based on the new risk weight. Thus, if the new banking book risk weight is 10%, the 3 maturity-based weighting factors in Table 2 (for qualifying debt, right hand column) should each be cut in half to be consistent with a 10% risk-weight for GSE positions in the banking book.

- b. Applicability of the new risk-weight to GSE positions should be initiated in time for the year-end financial reports of banks and bank holding companies. The current crisis makes rapid implementation of this proposal vitally important, so that the market, when assessing the soundness of publicly-traded financial institutions, appropriately considers the new Federal government relationship with the two GSEs. Waiting even one more quarter would slow the bottoming-out of the market and hinder the return to normalcy.

In summary, we applaud the agencies’ recognition and treatment of this important issue. If there are any questions, feel free to contact any of the members of the Capital Working Group listed in the Appendix that follows.

APPENDIX

RMA Capital Working Group Institutions Participating in the Preparation and Review of this Response³

Bank of America: Richard Swenson, Senior Vice President, Risk Capital & Portfolio Analysis.

Citigroup: Fenton Aylmer, Director, Basel II Risk and Regulatory Oversight.

HSBC/North America Holdings: Stephen Marasco, Vice President, Credit Policy; Mary Ann Hageman, First Vice President, Credit Risk Management.

JPMorganChase & Co: Joseph P. Lyons, Vice President, Basel II Program Office.

M&T: Rajas M. Gokhale, Senior Risk Analyst.

Union Bank of California: Hans Helbekkmo, Senior Vice President, Enterprise Wide Risk; Desta Gebre-Medhin-Huff, VP, Credit Portfolio Risk Analysis and Basel II Program Support.

U.S. Bancorp: Jacob Seljan, Senior Vice President, Credit Administration; Lyubov Zech, Asst. Vice President, Credit Administration.

Wells Fargo: James Petersohn, Senior Vice President, Corporate Credit.

Risk Management Association: Edward DeMarco, General Counsel; Suzanne I. Wharton, Associate Director, Strategic Learning and Research.

Promontory Financial Group: John Mingo, Senior Advisor.

³ Individual institutions in the Capital Working Group may have opinions that differ from those expressed in this Response and, as well, individual institutions may be responding to the NPR separately from this Response.