ICBA
Independent Community Bankers of America®

March 9, 2021

Mr. Alfred M Pollard
General Counsel
Federal Housing Finance Agency
400 7th St SW 8th Floor
Washington, DC 20219

RE: Enterprise Liquidity Requirements, RIN 2590-AB09

Dear Mr. Pollard:

The Independent Community Bankers of America (ICBA)[1] welcomes this opportunity to provide comments on the Federal Housing Finance Agency's (FHFA) proposed rule regarding Enterprise Liquidity Requirements. ICBA views this proposed rule as a companion to the recently finalized Enterprise Capital Framework which prescribes robust risk-based capital levels for Fannie Mae and Freddie Mac (the Enterprises) and is a critical step toward the full recapitalization and eventual release of the Enterprises from a nearly 13-year-long conservatorship. ICBA has strongly advocated for the development and implementation of strong capital requirements that will protect taxpayers and help ensure the safety and soundness of the Enterprises which are critical to the operation of the housing finance industry. ICBA members and other mortgage lenders depend on the liquidity provided by the Enterprises.

The proposed rule follows an approach similar to the liquidity requirements for Systemically Important Financial Institutions (SIFIs), making use of the Basel III construct with mandated

[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 constitute 99 percent of all banks, employ more than 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding more than $5 trillion in assets, over $4.4 trillion in deposits, and more than $3.4 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.

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liquidity coverage ratios (LCRs) and additional liquidity buffers and a net stable funding ratio (NSFR). These are all prudent requirements, and FHFA has done well to include them in this proposed rule.

As stated earlier, ICBA views this proposed rule as a companion to the recently finalized Enterprise Capital Framework and should be considered together for the purposes of determining the appropriate level of capital and liquidity each Enterprise should maintain. These rules must balance the need for safety and soundness, taxpayer protection, housing market liquidity, and should be calibrated based on current economic conditions. Further, this proposed liquidity rule must consider the Enterprises' charters, mission, and monoline business model. It should be noted that, unlike SIFIs, the Enterprises do not have multiple subsidiaries, or lines of business outside of the United States. The Enterprises do have access to a substantial line of credit from the U.S. Treasury and given the central nature of the Enterprises role in the housing economy, it is very likely that additional resources would be provided to the Enterprises if the need arose.

The proposed rule and the stress test scenario are both rigorous. They also appear to mandate requirements for the Enterprises that prepare them for an economic downturn that is unlikely to occur. One example of this is that the proposed rule requires the Enterprises to assume, during an economic downturn, that they cannot issue any debt for a year and that five of their major mortgage servicers will have failed. While this would be a serious situation, the Enterprises would still be receiving income from other servicers, and they would still have access to the servicing cashflows from the mortgage servicing rights (MSRs) held by the five failed servicers and would likely move those MSRs to other entities. While there could be some disruption, it would likely be relatively brief.

ICBA is concerned that requiring the Enterprises to plan for such an extreme situation and to maintain liquidity to survive such an event may undermine the Enterprises' ability to rebuild capital – which is currently completely reliant on retained earnings. ICBA recommends FHFA adjust their stress test scenario to reflect a more likely chain of events rather than require the Enterprises to plan and reserve for an event that would not likely ever happen.

ICBA supports FHFA's actions to promulgate strong robust capital and liquidity requirements for the Enterprises to ensure their safety and soundness, which will protect taxpayers, while keeping the mortgage market liquid for all stakeholders. However, ICBA encourages the FHFA to calibrate this rule to avoid any impact on the Enterprises ability to build capital through

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retained earnings or cause the Enterprises to unnecessarily raise prices to comply with this proposed rule.

ICBA appreciates the opportunity to provide comments to this proposed rule, and we look forward to working with FHFA and the Enterprises as this process moves forward. Please contact the undersigned at ron.haynie@icba.org with any questions regarding the content of this letter.

Sincerely,

Ron Haynie

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