

May 31, 2016

The Honorable Mel Watt, Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, D.C. 20219

Dear Director Watt:

Our organizations are deeply concerned that under the Preferred Stock Purchase Agreements with the Treasury Department, the capital buffers of Fannie Mae and Freddie Mac will be completely eliminated by the end of 2017. This course of action is likely to destabilize the housing economy, undermine efforts to make housing finance more accessible and affordable, and drive up the costs of homeownership.

In the wake of the 2008 economic crisis, financial institutions worldwide were required to increase their capital reserves. Having reasonable buffers in place is a cornerstone of sound financial regulation, as they protect companies themselves and the overall system from the impact of temporary financial losses. In 2012, however, your predecessor at FHFA and the Treasury Department decided to go in the completely opposite direction with respect to Fannie Mae and Freddie Mac, by sweeping all profits and gradually eliminating their capital altogether. We have heard of no justification for this continued arrangement.

Recently, you voiced concerns over the declining capital buffers, and said there could be negative market and policy ramifications if either company is forced to “draw” more money from Treasury – a risk that, as you said, will continue to escalate in the future. We strongly agree with this assessment.

As the conservator of Fannie Mae and Freddie Mac, acting in place of the Boards of Directors of the two enterprises, you have the “sole discretion” to declare or not declare quarterly dividends on GSE Senior Preferred Stock. The Housing and Economic Recovery Act of 2008 states that as conservator, FHFA “shall not be subject to the direction or supervision of any other agency of the United States” in the exercise of your authority. Accordingly, we urge you to suspend GSE dividend payments to Treasury, and require the GSEs to develop and implement capital restoration plans so they have enough capital to safely manage their business and to support America’s housing finance system.

Thank you for your consideration. We would be pleased to meet with you to further discuss this issue.

Sincerely,

Amalgamated Bank
Center for Responsible Lending
Community Home Lenders Association
Community Mortgage Lenders of America
Corporation for Enterprise Development (CFED)
The Leadership Conference on Civil and Human Rights
Leading Builders of America
NAACP
National Action Network
National Community Reinvestment Coalition