WEST VIRGINIA HOUSING DEVELOPMENT FUND

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January 15, 2002

01/16/2002
RECEIVED

The Honorable Armando Falcon, Jr.
Director
Office of Federal Housing Enterprise Oversight
1700 G Street, NW – 4th Floor
Washington, DC 20552

Dear Mr. Falcon:

On September 25, 2001, we sent you the attached letter describing our concerns about the proposed risk based capital rules OFHEO was proposing for Fannie Mae and Freddie Mac. We were very concerned that your rules would make investment in our bonds unattractive for Fannie Mae and Freddie Mac, and increase our borrowing costs which, would in turn, increase the costs to the lower income families in West Virginia trying to purchase a home.

Since the date of our original letter, we were very fortunate on December 5, 2001, to be able to sell a $79,665,000 bond issue of which Fannie Mae purchased $44 million and Freddie Mac purchased $18.7 million. This issue will provide over $130 million of loan funds to West Virginia families, who want to purchase a home, over the next 15 years at an interest rate of 6.1% with no points. We were very fortunate that Fannie Mae and Freddie Mac were willing to buy these bonds, which generated a rate which was 10-15 basis points lower than would have been achieved if they weren't in the market or unwilling to purchase our bonds that day.

We understand you have reduced your original proposed capital setaside for singe family and multifamily bonds to 3.5% for AAA and 8.75% for AA, which we and other issuers appreciate. But we would ask you to consider a further reduction (or elimination) of this setaside. Our bond issues go through a strenuous review at the rating agencies to get the AAA ratings they receive. Both Standard & Poor's and Moody's run various stress test scenarios, on the bond issues we do, to be sure that they can pay debt service under the "worse case" scenarios. This is very important for you to understand because these issues must be overcollateralized to meet these various rating agency stress tests. To require Fannie Mae and Freddie Mac to put up more collateral, at the expense of the people we, and they, are directed to help makes little sense.

We have checked with our investment providers that give us collateral for the investment we do (repurchase agreements), and 1% additional collateral for the investments we do (we currently collateralize at 102%) would reduce the yield on our investments 3 to 5 basis points. While I can't guarantee that this is what your collateral requirement might cost West Virginia families (3.5% x 4 basis points = 14 basis points total) this is a measure used in the market for the cost of setaside collateral.

We would again ask you to consider a further reduction (or remove) these setasides so we are able to help the families we serve and provide them the lowest rate we can, so they can afford safe and decent housing.

Very truly yours

WEST VIRGINIA HOUSING DEVELOPMENT FUND

Joe W. Hatfield
Executive Director

Martin J. Gargano, CPA
Deputy Director

MJG/JWH/jm

cc: The Honorable John D. Rockefeller IV
The Honorable Robert C. Byrd
The Honorable Shelley Moore Capito
The Honorable Alan B. Mollohan
The Honorable Nick J. Rahall