United States Senate
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, DC 20510–6075

September 13, 2017

The Honorable Steve Mnuchin
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

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

Dear Secretary Mnuchin and Director Watt:

We are writing to urge you to address the retained capital levels at the Government Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac, while they are in conservatorship. We were concerned by Secretary Mnuchin's statement before the Banking Committee on May 18, 2017, that he is not working with Director Watt to prevent another draw on the Treasury by the GSEs. We agree with Secretary Mnuchin's statement before the House Financial Services Committee that taxpayers are currently at risk with the GSEs in conservatorship.

Specifically, we are concerned about the Department of Treasury and the Federal Housing Finance Agency's (FHFA) requirement in the Preferred Stock Purchase Agreements (PSPAs) that the GSEs send all their income to the Treasury Department leaving two entities that back more than $5 trillion in mortgage debt with zero retained capital reserves beginning on January 1, 2018.

As soon as there are losses at either GSE, the Treasury Department will need to step in and make up the difference. This arrangement is contrary to the government's stated policy toward other large financial institutions. Since the reduction in capital is entirely a construct of the PSPAs between Treasury, FHFA and the GSEs, we urge you to take action to protect taxpayers and prevent a draw on the Treasury.

We are not alone in raising concerns about the lack of capital at the GSEs while Congress considers housing finance reform. The Independent Consumer Bankers of America, National Association of Realtors, Leading Builders of America, National Taxpayers Union, NAACP, Leadership Conference for Civil and Human Rights, CFED, National Urban League, National Community Reinvestment Coalition, League of United Latin American Citizens, Community Home Lenders of America, Community Mortgage Lenders of America, and Americans for Prosperity have all raised concerns about the capital levels at the GSEs and the risk to taxpayers.

In a letter dated June 9, 2016, Camden Fine, President and CEO of the Independent Community Bankers of America wrote:

"Community banks, along with other mortgage lenders both large and small, depend on the liquidity provided by Fannie Mae and Freddie Mac to fund mortgage loans. No other entity or entities can or will provide the same level of access and liquidity to mortgage lenders on a consistent, reliable basis in all markets at all times. As the conservator of the Enterprises, ICBA urges the FHFA to suspend dividend payments from the Enterprises to the Treasury, and require Fannie Mae and Freddie Mac to develop and implement the capital restoration plans required by the Housing and Economic Recovery Act of 2008, so they can safely manage their business and continue to support America's housing finance system."

We are simply requesting that the GSEs be permitted to build capital. We do not believe they should be released from conservatorship absent reform. Protecting taxpayers does not limit the power of Congress to take up reforms, and allowing for such measures does not conflict with the goal of reforming the housing finance system, but instead works in concert. Housing reform must be done with ample consideration for all of the potential consequences for current homeowners and future homebuyers. We urge you to take action to address the danger that the PSPAs create for taxpayers and the housing market to give the Banking Committee the time it needs to address reform.

Please respond to this letter by September 29, 2017 with an update regarding actions the Treasury Department and FHFA are pursuing to prevent a draw on the line of credit, including to amend the PSPAs to permit the GSEs to retain capital, to permit FHFA to hold capital in an escrow account, or to adjust the timing of the income sweep.

Sincerely,

Sherrod Brown

Jack Reed

Robert Menendez

Brian Schatz

Chris Van Hollen

Catherine Cortez Masto