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President and CEO

June 9, 2016

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

Dear Director Watt:

The recent earnings announcements from both Fannie Mae and Freddie Mac (the Enterprises), continue to raise concerns regarding the viability and safety and soundness of both companies. This time neither Enterprise required a draw from the U.S. Treasury. However, both Enterprises experienced significant markdowns of their derivative positions used to hedge their respective portfolios.

These markdowns caused Freddie Mac to post a loss for the first quarter of 2016 which was its second such loss in the last 12 months. Both Enterprises made other balance sheet adjustments to minimize the impact of the markdowns. These types of accounting maneuvers will become more difficult to execute as the capital buffers of the Enterprises shrink to zero over the next 18 months. As the reduction in capital occurs, the prospect of Treasury draws by one or both of the Enterprises increases. It's not a question of *if* they will need a draw, but when.

In recent statements, you voiced concerns regarding the declining capital buffers of the Enterprises, stating there could be negative market and policy ramifications if either company is forced to take a draw. ICBA shares these concerns.

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.

The Nation's Voice for Community Banks.®

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Thank you for your consideration. My staff and I would be pleased to meet with you to discuss our views on this critical issue.

Sincerely,

A handwritten signature in black ink, reading "Camden R. Fine". The signature is fluid and cursive, with a large initial "C" and a distinct dot over the "i" in "Fine".

Camden R. Fine
President and CEO

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