COMMENTS ON GSE CONSERVATOR'S WHITE PAPERS ON
THE NEW INFRASTRUCTURE
AND STRATEGIC PLANS

My working career has spanned more than fifty years; first as a real estate, bank and savings and loan industry auditor with Deloitte, subsequently as a senior real estate executive/director of a publicly traded home builder with a mortgage originator subsidiary and finally as real estate developer/investor/entrepreneur. My company pension trust plan holds a substantial common stock position in FNMA.

With respect to the New Infrastructure Plan, I applaud the proposed systems update, standardization and consolidation which should improve the operations of the Enterprises and secondary market. However, a primary focus of the GSEs should continue to be sound underwriting and verification of loans purchased and securitized. The conventional 80% LTV loan purchase guideline enabled GSEs to safely meet the financing mandate of their charters for decades. Enterprise loan underwriting/purchase standards were allowed to erode in the 1990's and 2000's due to Government mandates and competition from Wall Street's securitization of private label loans. Home prices escalated far beyond reality due to speculation stimulated by abundant mortgage credit available with little or no regard for borrower ability to repay. With that history known, the GSEs should primarily focus on securitizing conventional 80% LTV loans. Loan originators should be required to have a vested interest in all loans sold to the GSEs. Adequate originator capital and liquid assets to assure the originator's ability to repurchase/replace delinquent or deficient loans should be an approval requirement. While approved insurance and derivatives may have a risk reduction role, originator and borrower equity risk in every nonconventional loan is necessary. The secondary market for nonconventional loan securitization market should require that originators retain all equity risk in excess of 80% LTV if securitized thru the GSEs.

In order to attract additional private equity and fixed income capital it is necessary to first restore investor confidence in the GSEs by eliminating the government's implied threat of liquidation or nationalization. The Conservator should proceed as soon as feasible with a formal GSE recapitalization "Plan" which redeems or sells the Senior Preferred Stock and Warrants, establishes adequate operating capital and returns ownership to private shareholders ending the Conservatorship. Based on the Conservator's repayment estimates during the next five years, I believe sufficient GSE earnings capability can be demonstrated to accomplish the Plan.

The role of the GSEs in the stabilization of the real estate credit market and the avoidance of major economic depression during the recent and past financial crises should not be ignored. The GSEs have been and continue to be a significant tool in the availability of real estate credit in the economy in both good markets and times of extreme stress. The GSEs should allowed to emerge from Conservatorship and be preserved substantially in their present form. It is neither necessary or cost effective to attempt to replace the GSEs which have worked successfully in one case for more than sixty years. Sound management, systems and business practices are what is needed.

Respectfully submitted;

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