



December 4, 2012

Mr. Alfred M. Pollard
General Counsel
Federal Housing Finance Agency, Eighth Floor
Seventh Street S.W.
Washington, D.C. 20024

Re: Stress Testing of Regulated Entities (RIN 2590-AA47)

Dear Mr. Pollard:

Better Markets, Inc. (“Better Markets”) ¹ appreciates the opportunity to comment on matters identified in the above-captioned notice of proposed rulemaking (“Proposed Rule”) of the Federal Housing Finance Agency (“FHFA”). Better Markets supports the FHFA’s efforts to implement Section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”). That section of the Dodd-Frank Act requires the FHFA to issue regulations requiring FHFA-supervised entities with assets of more than \$10 billion to conduct annual stress tests. However, we have some suggestions that would strengthen the Proposed Rule.

First, the FHFA anticipates being informed by the stress tests conducted by the covered entities using their individual models. But the FHFA cannot know whether these models produce meaningful information without understanding their statistical properties and running them independently. The FHFA must set standards for the internal validation of these models and independently test both their within-sample performance and their out-of-sample predictive performance to see that they are indeed useful and informative. Otherwise, it will base its regulatory judgments in part on information which may or may not be meaningful. The FHFA has the authority and resources to do whatever is required in this regard.

Second, under the Proposed Rule the entities required to conduct stress tests must post the results on the company’s web site or in any other forum that is reasonably accessible to the public. Given the potential usefulness of these data, they ought to be published in a standardized format on an easily accessible government website, such as the one already maintained by FHFA.

¹ Better Markets is a nonprofit organization that promotes the public interest in the capital and commodity markets, including in particular in the rulemaking process associated with the implementation of the Dodd-Frank Act.

Third, under the Proposed Rule the covered entities will be required to publish a general list of results of their internal stress tests. For these results to be comparable and meaningful, the covered entities should also be required to post a set of standard metrics, developed by the FHFA in the process of validating these models, that measures the statistical properties and forecasting accuracy of the models.

Finally, under the Proposed Rule the FHFA Director retains discretion to require stress tests from covered entities with assets below the \$10 billion threshold. This is a commendable provision, because meaningful stress test information has the potential to help regulators and increase market discipline.

We hope these comments are helpful in your consideration of the Proposed Rule.

Sincerely,



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