



FEDERAL HOUSING FINANCE AGENCY
Office of the Director

November 8, 2010

The Honorable Sherrod Brown
United States Senate
713 Hart Senate Office Building
Washington, DC 20510

Dear Senator Brown:

Thank you for your September 15, 2010, letter regarding participation by Fannie Mae and Freddie Mac in the Ohio Mortgage Modification with Principal Reduction Program. We understand your desire for Ohio to effectively utilize the \$22 million received from the Department of Treasury's Housing Finance Agency Innovation Fund for Hardest-Hit Markets (HHF) for this purpose.

While I recognize that several states, including Ohio, would like to use some portion of the HHF allocation to offer borrowers a reduction in their mortgage balance, this particular approach to foreclosure prevention has not been used widely throughout the industry to date and therefore requires careful consideration and planning to execute properly. In order to support this type of program, Fannie Mae and Freddie Mac would need to modify their existing technology and provide specialized program guidance to their seller-servicers, an effort that requires time and resources. Further, the costs and timing of this type investment in infrastructure must be balanced, so as not to direct attention away from other important activities in which the Enterprises are engaged.

As conservator of Fannie Mae and Freddie Mac, FHFA has a responsibility to ensure the companies undertake robust loss mitigation activities to minimize taxpayer losses. At the same time, we must also have sufficient basis to believe that small, customized programs such as the one you have asked about will actually reduce taxpayer costs, net of the investments in, and uncertainty about, such an initiative.

Some of the considerations for the analysis include an evaluation of which types of borrowers and which types of loan products are best served by this type of assistance, to ensure that the limited resources are dedicated to those most in need and most likely to succeed. Another concern is that principal forgiveness on Enterprise-guaranteed loans may transfer the cost of reducing mortgage balances for some homeowners to all taxpayers, rather than to the private mortgage insurance companies who were obligated to take the first loss on these loans.

FHFA is working with the Enterprises to analyze and address these types of concerns to ensure that any program undertaken by the Enterprises satisfies FHFA's conservatorship responsibilities. Once the agency has made this decision, we will be happy to share our conclusions.

Please do not hesitate to contact Peter Brereton on my staff at (202) 414-3799 if we can be of further assistance.

Sincerely,



Edward J. DeMarco
Acting Director