FEDERAL HOUSING FINANCE AGENCY
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Office of the Director

December 2, 2008

Honorable Christopher Dodd
Chairman
Committee on Banking, Housing,
And Urban Affairs
United States Senate
Washington, DC 20510

Honorable Richard C. Shelby
Ranking Minority Member
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510

Honorable Barney Frank
Chairman
Committee on Financial Services
House of Representatives
Washington, DC 20515

Honorable Spencer Bachus
Ranking Minority Member
Committee on Financial Services
House of Representatives
Washington, DC 20515

Dear Chairmen and Ranking Members:

I am pleased to transmit our initial report in accordance with Section 110 of the Emergency Economic Stabilization Act of 2008 (EESA), titled *Assistance to Homeowners*. The FHFA is committed to developing and implementing plans to minimize unnecessary foreclosures. As housing prices have fallen, delinquencies on mortgages have tripled, not just for subprime and Alt-A, but also for prime mortgages. Foreclosures have increased almost 150% from two years ago. Foreclosures hurt families, their neighbors, whole communities and the overall housing market. We are committed to stopping this downward spiral in the housing market.

On October 3, 2008, the President signed the Emergency Economic Stabilization Act of 2008 (EESA), providing broad authorities to the Treasury to undertake measures to strengthen financial institutions. The EESA included provisions to assist homeowners facing foreclosure and protect tenants. Section 110 of EESA charges federal property managers (FPM) to, within 60 days of enactment, develop and begin implementing plans that seek to maximize assistance for homeowners and encourage servicers of underlying mortgages to take advantage of programs to minimize foreclosures. In addition, each FPM is required to report to Congress within 60 days after the date of enactment of the EESA and every 30 days thereafter, specific information on the number and types of loan modifications made and the number of actual foreclosures during the reporting period. The Federal Housing Finance Agency (FHFA) is a designated FPM in its role as conservator for Fannie Mae and Freddie Mac under Section 110 of the EESA.

On November 11, 2008 (see attached statement), FHFA announced a major program designed to greatly reduce preventable foreclosures with a simplified, streamlined loan modification program to get struggling homeowners into mortgages that they can afford. It is an achievable goal if homeowners, banks, mortgage servicers, investors, Fannie Mae and Freddie Mac all work together. As the regulator and the conservator of Fannie Mae and Freddie Mac, and the regulator of the Federal Home Loan Banks (FHLBanks), the FHFA strongly supports the Enterprises' leadership role in setting industry standards for assisting "at risk" borrowers who could lose their homes to foreclosure.

This streamlined modification program (SMP) with uniform eligibility requirements will be supported by a consistent, efficient process approved by key industry participants. This program resulted from a unified effort among the Enterprises, Hope Now and its twenty-seven servicer partners, the Department of the Treasury, the Federal Housing Administration (FHA) and FHFA. In developing this program, we have drawn on the FDIC's assistance and experience with IndyMac Bank, and have greatly benefited from the FDIC's input.

Fannie Mae and Freddie Mac will soon issue specific guidance to their servicers implementing this program, requiring implementation by December 15, 2008. This streamlined program is meant to reach as many seriously delinquent borrowers as possible to give them a chance to save their homes and begin restoring their credit. Regrettably, there are many American families in this situation. This unified effort on the part of the Fannie Mae, Freddie Mac, private lenders, servicers, the Treasury Department, HUD and FHFA is a bold attempt to move quickly in defining a nationwide program beyond just Fannie Mae and Freddie Mac that can quickly and easily reach many of these troubled borrowers, thereby stabilizing those families and the communities and neighborhoods in which they live. In order to allow time for the implementation of the SMP, Fannie Mae and Freddie Mac have announced suspension of foreclosures on owner occupied homes from November 26, 2008 until January 9, 2009.

In accordance with the reporting requirements of Section 110(b)(5), please find attached our FHFA *Foreclosure Prevention Reports*, which reports on loan modifications and foreclosure activities of the enterprises. FHFA publishes a quarterly report (the second quarter 2008 report, formally entitled *FHFA Mortgage Metrics Report*, is attached) with detailed analysis as well as a less detailed monthly report (the August 2008 report is attached). Both reports will be forwarded as part of our monthly FPM report. The FHFA *Foreclosure Prevention Reports* summarize data provided by Fannie Mae and Freddie Mac and gives a comprehensive view of their efforts to assist borrowers through forbearance, payment plans, and loan modification, and other alternatives to foreclosure such as short sales and deeds in lieu. The reports focus on the delinquencies, loss mitigation actions, and foreclosure data reported by more than 3,000 approved servicers. We are currently working with both enterprises to develop additional reporting requirements so that the *Foreclosure Prevention Reports* will identify loan modifications by type in compliance with Section 110(b)(5) of the EESA.

The attached August 2008 *Foreclosure Prevention Report* indicates the need for the enterprises to adopt more aggressive loan modification and foreclosure prevention activities. The number of foreclosures completed in August 2008 was 15,528, which is above 2008 YTD monthly average of 12,701. The number of loan modifications in August 2008 was 4,402, which is below the 2008 YTD monthly average of 4,959. In addition, the Borrowers Workout Plans (repayment plans initiated + loan modifications completed) as a percentage of completed foreclosure sales was 218% in August 2008, but still below the 2008 YTD average of 222%. It should be noted that the two Enterprises were placed into conservatorship on September 6, 2008.

I have also attached FHFA's current plan under Section 110 (b)(l) to maximize assistance for homeowners and minimize preventable foreclosures. In developing the plan, we have consulted with the Federal Reserve Board and the FDIC. The program at the heart of FHFA's plan is the streamlined modification program. We will continue to update, elaborate and expand FHFA's plan consistent with the intent of EESA.

Sincerelv.

JBLockhart

James B. Lockhart III
Director, Federal Housing Finance Agency
Chairman, FHFA Oversight Board

Attachments

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Plan to Maximize Assistance for Homeowners and Minimize Foreclosures (under Section 110 of the Emergency Economic Stabilization Act of 2008)

December 2, 2008

Introduction

It is extremely important for the homeowners, neighborhoods, whole communities and the housing markets to reduce preventable foreclosures.

As a Federal Property Manager, FHFA will ensure that Fannie Mae and Freddie Mac continue to accelerate their programs to reduce foreclosures on the 32 million mortgages that they own or guarantee. As the standard setter for the mortgage market we would expect their programs will encourage other investors, servicers and trustees to adopt more aggressive loan modification activities. In their leadership role we would expect their approach to foreclosure prevention and this Plan to develop further over time.

Single Family Mortgages owned or guaranteed by Fannie Mae and Freddie Mac

Fannie Mae and Freddie Mac will adopt the streamlined modification program (SMP), which they developed together with FHFA, HOPE NOW and its servicer members, the Department of the Treasury, and the Federal Housing Administration. The SMP was announced on November 11, 2008. The SMP draws on to a great extent on the streamlined modification program FDIC developed for IndyMac Bank, but differs in certain respects.

The SMP will provide for a consistent uniform process which will lessen the time and complexity involved in the traditional loss mitigation process, in which modifications are designed on a case-by-case basis. Only situations where acceptable modifications cannot be made under the SMP will require the traditional approach.

The SMP will establish 38 percent of monthly household income as a benchmark ratio for calculating an affordable payment, and allow for achievement of that ratio through adjustment of the mortgage term and/or interest rate, and in some cases the forbearance (until loan payoff) of some amount of the loan principal.

The SMP should significantly increase the number of loan modifications at Fannie Mae and Freddie Mac, and allow for more loss mitigation staff resources to be applied to loans that need to be modified outside the SMP. FHFA expects Fannie Mae and Freddie Mac to set out details of the SMP to its approved seller/servicers by December 15, 2008. Foreclosures for single family owner occupied homes have been suspended through January 9, 2009 to allow time for the SMP implementation.

Fannie Mae and Freddie Mac will continue to supplement the SMP with other loss mitigation programs presently in place and being adopted that seek to assist homeowners avoid foreclosures. For example, both enterprises currently offer a short payoff loss mitigation option necessary to facilitate the HOPE for Homeowners Program. As another example, Fannie Mae offers Home Saver Advance loans, unsecured loans for delinquent amounts when the borrower can afford payments going forward, which have prevented close to 46,000 foreclosures through the third quarter of 2008.

In accordance with Section 110(b)(5) of the EESA, the FHFA is required to report to Congress every 30 days, specific information on the number and types of loan modifications made and the number of actual foreclosures occurring during the reporting period. The FHFA *Foreclosure Prevention Report* summarizes data provided by Fannie Mae and Freddie Mac and gives a comprehensive view of their efforts to assist borrowers through forbearance, payment plans, and loan modification, and other alternatives to foreclosure such as short sales and deeds in lieu. The report focuses on the delinquencies, loss mitigation actions, and foreclosure data reported by more than 3,000 approved servicers. We are currently working with both enterprises to develop additional reporting requirements so that the *Foreclosure Prevention Report* will also identify loan modifications by type in compliance with Section 110(b)(5) of the EESA. The FHFA monthly *Foreclosure Prevention Report* is also posted on FHFA's website at: http://www.ofheo.gov/media/news%20releases/AugForeclosurePreventionRpt112508.pdf .

Loans Underlying Private Label Mortgage-Backed Securities owned by Fannie Mae and Freddie Mac

On November 24, 2008, FHFA wrote to servicers and trustees of private label mortgage-backed securities owned by Fannie Mae and Freddie Mac, urging the adoption of the SMP as an industry standard. In the past the ability and willingness of servicers to apply such an approach for mortgages they service on behalf of private MBS trusts has varied based on provisions of the trust pooling and servicing agreements and servicer and trustee sensitivity to potential legal challenge by security holders. Some servicers indicated they saw serious legal impediments, while others did not see legal issues as an obstacle.

Fannie Mae and Freddie Mac, together own approximately $180 billion dollars of outstanding private label securities. To support voluntary adoption of SMP by private label servicers and trustees, FHFA, Fannie Mae, and Freddie Mac will work with other industry players to exercise existing authorities under pooling and servicing agreement and develop new approaches to enhance servicers' ability to modify loans. For the securities they own, Fannie Mae and Freddie Mac will aggressively encourage the loan servicers and trustees of securities to adopt the SMP.

Tenant Protections

One-four family properties. For mortgages on investor-owned 1-4 family properties, a loan modification that avoids foreclosure protects the tenants, by preserving ownership by the existing landlord. Although investor-owned properties are not eligible for the SMP, they do go through the standard loan modification process at each Enterprise, and resulting modifications should support the continuation of any government rental subsidies. Should modification be impractical, Freddie Mac's current policy on one-unit REO properties calls for tenant eviction. Freddie Mac is, however, drafting a policy that would allow tenants to remain in such properties under specified conditions. Tenants in 2-4 family properties can remain in the property provided one unit is available to show, and the tenant-occupied units are inhabitable and up to code. Fannie Mae has an informal policy to keep tenants in foreclosed properties. They have begun two small pilot programs in the northeast to keep tenants in properties, or rent foreclosed properties back to the tenants. FHFA will work with both enterprises to ensure that policies are developed and implemented to protect tenants in 1-4 family properties.

Multi-family properties. Both enterprises largely comply with the intent of EESA by ensuring that tenants are protected in the event of defaults on loans involving multi-family mortgages. At the present time the enterprises rarely modify troubled multi-family loans; however, for loans subject to work-out the enterprises work with the jurisdictional housing authorities to ensure that tenants can remain in their homes where safe conditions exist. Where properties are condemned or not habitable, the enterprises routinely assist in tenant relocation.