Federal Housing Finance Agency
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Dear Private Label MBS Trustee, Servicer, or Investor

Fannie Mae and Freddie Mac are the acknowledged leaders in creating national standards for mortgage lending in the United States. I am writing to request your prompt action to support the standards set forth by Fannie Mae and Freddie Mac's new streamlined modification program ("SMP") for all mortgages, including mortgages backing private-label mortgage securities ("PLS").

The program, announced on Tuesday November 11, 2008, should become an accepted and broad based industry standard for identifying seriously delinquent homeowners and assisting them to avoid preventable foreclosure through reasonable modifications of their loans. The streamlined loan modification program is a strong program for market stability and represents a joint effort of FHFA, Fannie Mae and Freddie Mac, the Department of the Treasury, the Federal Housing Administration, and HOPE NOW and its 27 servicer partners. Together the sponsors of the program touch almost all the mortgages in the United States.

SMP targets homeowners who have missed three payments or more, own and occupy their property as a primary residence and have not filed for bankruptcy. SMP creates a standard definition of an "affordable" mortgage payment— no more than 38 percent of the household's monthly gross income. Servicers will have flexibility in modifying loans, including reducing the mortgage interest rate, extending the life of the loan or even deferring payment on part of the principal. For loans Fannie Mae and Freddie Mac guarantee, the servicer receives an $800 payment for each modification under the SMP. SMP will increase significantly the number of loan modifications completed, reduce the time and effort required to undertake such modifications, and reduce foreclosures.

Fannie Mae and Freddie Mac own or guarantee well more than half of all single family mortgages, but these mortgages represent only 20% of serious delinquencies. On the other hand, private label mortgage-backed securities represent less than 20% of all mortgages, but 60% of serious delinquencies. It is critical that servicers of the loans backing PLS and trustees for those securities acknowledge a standard approach to expedite a cost-efficient program of loan modifications. Reducing preventable foreclosures is less costly than completing the foreclosure process with the resulting negative impact on homeowners, investors and neighborhoods.

Fannie Mae, Freddie Mac and the Federal Home Loan Banks hold approximately $250 billion in private label securities, roughly 20% of these securities outstanding. As the regulator of these government sponsored enterprises and the conservator for Fannie Mae and Freddie Mac, I am convinced that PLS trustees and the servicers of the underlying loans can and should embrace the principles of and implement the Streamlined Modification Program.

Trustees and servicers have an obligation to minimize losses to holders and guarantors of mortgage securities. The critical component of reducing losses will be the stabilization of the housing market. The cost of foreclosure has risen dramatically over the last year and now is approaching 50% of unpaid mortgage principal balances. As a result investors in private label securities have already taken unprecedented mark-to-market losses. The projected increasing foreclosure activity will exacerbate mortgage losses and continue the downward spiral in house prices. Stronger foreclosure prevention activities should help to arrest the downward spiral in house and private-label MBS prices. It is time to act to modify loans to keep people in their homes and to prevent foreclosures, which harm neighborhoods and create more losses for investors.

Not only is the SMP in the best interests of homeowners and investors, but it would allow consistency in the treatment of a servicer's portfolio loans and those serviced under PLS pooling and servicing agreements ("PSA"). Typically agreements require the servicers to follow accepted practices and procedures. The SMP provisions should fit well within servicer and trustee duties and obligations. As the American Securitization Forum noted in the December 2007 "Statement of Principles, Recommendations and Guidelines for Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime Residential Mortgage Loans," "The current market conditions are unique in aligning the interest of securitization investors, servicers and homeowners; it is in all market participants' best interests that homeowners are enabled to stay in their houses." And as early as June of 2007, ASF asserted in its "Statement of Principles, Recommendations and Guidelines for the Modification of Securitized Subprime Residential Mortgage Loans," "…ASF is of the view that loan modifications, for subprime mortgage loans that are in default or for which default is reasonably foreseeable, are an important servicing tool that can both help homeowners avoid foreclosure and minimize losses to securitization investors." Given market developments this year, we believe the principles set forth by ASF are now relevant beyond subprime loan securizations, to all private label mortgage securitizations, including those of Alt-A and Option-ARM loans.

PSA provisions affecting loan modifications should afford flexibility for servicers to work within the approach of the SMP. Trustees and servicers might reasonably apply streamlined approaches in making determinations under their agreements based on changed market conditions and the model set forth by the SMP. Where existing agreements explicitly disallow such interpretation, trustees and servicers should seek, either by agreement or judicial action, to amend them appropriately. Adoption of the SMP does not preclude a servicer from applying a Net Present Value test.

Fannie Mae and Freddie Mac will issue soon specific guidance for the December 15th program implementation I urge you to adopt quickly the SMP to provide Americans with relief from unaffordable mortgages and reduce the incidence of foreclosure.

Sincerely,

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