



MARTHA COAKLEY  
ATTORNEY GENERAL

# THE COMMONWEALTH OF MASSACHUSETTS OFFICE OF THE ATTORNEY GENERAL

ONE ASHBURTON PLACE  
BOSTON, MASSACHUSETTS 02108

(617) 727-2200  
[www.mass.gov/ago](http://www.mass.gov/ago)

February 2, 2012

Edward J. DeMarco  
Acting Director  
Federal Housing Finance Agency  
400 7<sup>th</sup> Street, SW  
Washington, DC 20024

**Re: Fannie Mae and Freddie Mac's Refusal to Engage in Loan Modifications  
including Principal Write-downs for Distressed Homeowners**

Dear Director DeMarco:

I am writing to express my great concern about Fannie Mae's and Freddie Mac's unwillingness to increase the availability of federal loan modification programs, including principal forgiveness, to prevent *unnecessary* foreclosures, protect homeownership and work towards stabilizing our housing market.

More than five million people have lost their homes due to foreclosure in the past five years, and millions more are on the brink of foreclosure, struggling to stay in their homes. I believe resolving this foreclosure crisis is crucial to restore a healthy economy.

Our office has brought numerous actions against major banks and financial institutions seeking accountability and real relief for homeowners during this economic crisis. One of our overarching goals has been to keep people in their homes and avoid unnecessary foreclosures by securing loan modifications. Our enforcement actions against Fremont, Option One, Morgan Stanley, Goldman Sachs and Royal Bank of Scotland all resulted in, among other things, loan modifications designed to remedy those companies' sale or facilitation of unfair and unsustainable loans in Massachusetts. Beyond those enforcement actions, our office has tirelessly advocated for loan modifications for distressed borrowers that implement a net-present value analysis. Net-present value based loan modifications not only help homeowners, they are in the best economic interests of the loan holders as well. Those loan modifications have literally helped thousands of people stay in their homes in Massachusetts.

That is why Fannie and Freddie's inability to achieve loan modifications generally, and unwillingness to engage in principal write-downs specifically, is so troubling. Preservation of assets and foreclosure prevention are not conflicting goals and can both be achieved by offering loan modifications when the net present value of the loan modification is greater than the net present value of a foreclosure. The Federal Housing Finance Agency (FHFA), Foreclosure Prevention & Refinance Report November 2011 (FPRR), reports that rather than increasing loan



modifications, fewer loan modifications have been implemented in September, October and November 2011, than any other month since November 2010. This trend must be reversed.

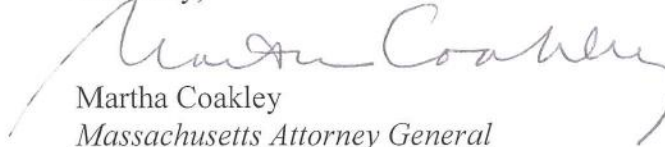
FHFA as a Federal Property Manager (FPM) under the Emergency Economic Stabilization Act of 2008 (EESA), is directed to develop and implement plans to maximize assistance for homeowners and encourage servicers of underlying mortgages to participate and implement these programs to minimize foreclosures. As stated in your letter releasing the FPRR to Congress, FHFA's top priority remains reducing Enterprise losses by preventing avoidable foreclosures through loan modifications and mortgage refinances.

FHFA has the authority and the tools to change current loan modification programs to allow for principal forgiveness in addition to principal forbearance. More loan modifications will be achieved if FHFA would allow principal forgiveness, which in turn would work to stabilize our housing market and the economy. Your recent letter to the Committee on Oversight and Government Reform, acknowledges that principal forgiveness can serve the long-term interests of taxpayers when compared to foreclosure. Because principal forgiveness can achieve FHFA's combined goal of asset preservation and foreclosure prevention, I urge you to adopt a comprehensive approach promoting principal forgiveness guided by a net-present value analysis. Further taxpayer protections can be achieved by agreements between homeowners and lenders that provide for equity sharing in the hopeful event that property values appreciate.

As you are aware, many states and the federal government appear to be in final stages of negotiating a comprehensive settlement resolving allegations of servicing fraud with five major banks. It is anticipated that the proposed agreement will provide loan modifications featuring principal write-downs valued at billions of dollars. Those discussions have brought into focus the unwillingness of Fannie Mae and Freddie Mac—though backed by U.S. taxpayers and charged with avoiding unwarranted foreclosures—to use principal write-downs as part of its loan modification programs. Fannie Mae and Freddie Mac should be a leader in the arena of loan modification best practices, not an obstruction. Principal forgiveness guided by net present value analysis is an essential tool to avoid unnecessary foreclosures. Fannie Mae and Freddie Mac should change course to serve both their own interests and those of the public and the economy.

We would appreciate the opportunity to discuss these issues with you and work towards solutions to the housing and economic crisis. Please feel free to contact me or Deputy Attorney General Chris Barry-Smith in our office at (617) 963-2539 to discuss these issues further.

Cordially,



Martha Coakley  
*Massachusetts Attorney General*

Cc: Massachusetts Congressional Delegation