

United States Senate

WASHINGTON, DC 20510

November 14, 2011

Mr. Edward DeMarco
Acting Director
Federal Housing Finance Agency
1700 G Street, NW
Washington, DC 20552

Dear Mr. DeMarco:

We write to urge the Federal Housing Finance Agency (FHFA) to take meaningful steps that will strengthen the nation's housing market while at the same time strengthening the financial footing of Fannie Mae and Freddie Mac (collectively, the Enterprises). Specifically, we urge FHFA to consent to proposed Chapter 13 bankruptcy plans that call for prioritizing the payment of principal on primary residential mortgages held or backed by the Enterprises. This approach represents a "win-win" approach for FHFA and for America's homeowners and communities because it will not only help American families avoid foreclosure and restore equity in their homes, but it also increases the likelihood that loans held or backed by the Enterprises will be repaid.

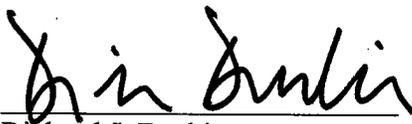
In the three years since the financial crisis, we have seen nearly 4.5 million Americans lose their homes to foreclosure, and millions more are struggling to keep their homes. Twenty-two percent of all U.S. residential mortgages – covering roughly 11 million homeowners – are underwater, and most of these mortgages exceed the value of the home by more than 30 percent. Four million mortgages are considered seriously delinquent, either with payments 90 days past due or in foreclosure proceedings. Housing prices have declined significantly in many areas due to the high number of vacant, foreclosed homes, including a 4.1 percent decrease in housing prices this September. The downward spiral of increased foreclosures and declining housing prices will continue to be a drag on our economy until equity is restored in the housing market.

While there is no one perfect solution to the problems facing our housing markets, FHFA, as conservator for the Enterprises, can address the situation incrementally and constructively when the Enterprises serve as creditors in Chapter 13 bankruptcy cases. Each month, an estimated 22,000 Americans file for Chapter 13 bankruptcy restructuring and include claims for the mortgage on their primary residence. While mortgages on primary residences cannot be judicially modified, the holders of the mortgages can voluntarily agree to proposed repayment plans that involve modifications. If FHFA were to direct the Enterprises to consent to modifications of underwater mortgages that prioritize principal payments by temporarily suspending mortgage interest payments for the duration of a Chapter 13 plan, homeowners would be able to credit all of their monthly payments to paying down principal and restoring equity in their home. At the end of the repayment plan, the remaining principal balance could be re-amortized into a 25-year loan. This approach could not only save many homeowners from defaulting into foreclosure, but would also save the Enterprises from additional losses.

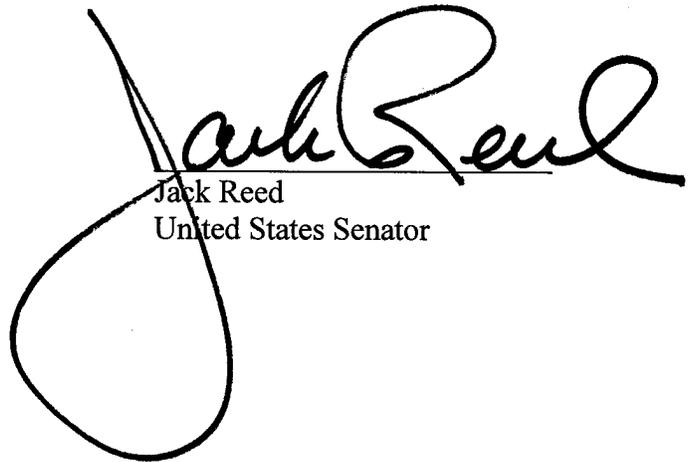
As conservator for Fannie Mae and Freddie Mac, FHFA has a duty to preserve and conserve the assets of the Enterprises, which FHFA has stated requires it to minimize losses. We believe that adopting the approach described above is consistent with that duty. The Chapter 13 process also provides the Enterprises with significant safeguards, such as a strict means test to guard against moral hazard and the benefit of bankruptcy court judges who will ensure that the Chapter 13 process will not be misused by undeserving debtors.

It is our understanding from public reports that FHFA is giving serious consideration to adopting this approach for handling Chapter 13 bankruptcy cases, and we urge you to exercise your discretion in favor of doing so. If for some reason, you conclude that the Chapter 13 process is inconsistent with FHFA's duties as conservator, we would appreciate an explanation. We thank you for your consideration and look forward to FHFA's prompt response.

Sincerely,



Richard J. Durbin
United States Senator



Jack Reed
United States Senator