

September 15, 2008

James B. Lockhart III, Director
Federal Housing Finance Agency (FHFA)
1700 G Street, NW
4th Floor
Washington, DC 20552

Dear Mr. Lockhart:

We write to request a meeting with you to discuss the future role of the Government Sponsored Enterprises (GSEs) in the housing market under conservatorship. The recent decision to place Freddie Mac and Fannie Mae in conservatorship raises several questions about the role these entities will continue to play in providing affordable homeownership to low- and moderate-income families and the role they can play in preventing foreclosures and allowing families to stay in their homes. Specifically, we urge you to consider adopting the following policies:

- **Defer foreclosures and modify loans in the GSEs portfolios.** The GSEs should freeze foreclosures for a substantial period of time on all whole loans in their portfolios to allow for modification. Additionally, the GSEs should aggressively remove troubled loans from their securitized pools, without waiting for the loan to become delinquent, and place them in their portfolios so they can be subsequently modified. All troubled loans in portfolio should be modified according to a reasonable affordability standard, similar to what the Federal Deposit Insurance Corporation (FDIC) has done with IndyMac's portfolio. The FHFA, along with Treasury and Congress, should design a modification process to avoid any negative tax consequences for homeowners. Principal reductions, which the GSEs have refused to do, interest rate reductions, and term extensions must all be used to create affordability. In the past, the GSEs have refused to pull loans from their securitized loans or modify delinquent loans aggressively. With the U.S. government now backing the GSEs, any barriers to changing these policies should be removed. To do otherwise, would continue to undermine housing markets, create needless stress and disruption to beleaguered homeowners, and increase the number of foreclosed homes across the country. Secretary Paulson was recently quoted as saying that the regulators would work with financial institutions that own considerable GSE preferred stock to restore their capital positions. The same should be done for American homeowners.
- **Retain focus on affordable homeownership.** Although the government has taken over Freddie Mac and Fannie Mae, it is vital that Congress and the Conservator not lose sight of the GSEs' fundamental purpose, as chartered by Congress, to expand homeownership opportunities and promote access to credit to under-served markets. Unfortunately, the GSEs have had difficulty meeting their affordable housing goals and more importantly, they purchased predatory subprime loans made to vulnerable communities and applied these imprudent purchases to these goals. Among other things, the GSEs need to continue key partnerships with nonprofit organizations that innovate ways to extend mortgage credit to historically underserved communities as well as groups that conduct outreach to out-of-contact borrowers who are delinquent on their mortgage. Innovative pilot programs are needed now more than ever.
- **Ensure funding for the National Housing Trust Fund (NHTF) and the Capital Magnet Fund (CMF).** These new affordable housing funds, created in the housing legislation enacted in July, provide a dedicated funding source for the production,

preservation, rehabilitation, or operation of rental housing targeted to assist low-income households. Specifically, the legislation creates a funding mechanism dependent on annual contributions from the GSEs. The decision to place the GSEs in conservatorship jeopardizes this funding and the future of the NHTF and CMF, which are critical to providing affordable housing to people employed in the low wage work force and to the lowest income elderly and disabled people in our country. Therefore, it is critical that an alternative funding mechanism be created should the GSEs be unable to meet their financial obligations to these two new affordable housing funds.

As our leaders work to stabilize the housing market, speed economic recovery, and open the benefits of homeownership to working families, the public missions of Freddie and Fannie must be kept front and center. As Chairman Frank noted in his statement regarding Treasury's action to place the GSEs in conservatorship, such an intervention should ensure the continued availability of affordable housing in addition to stability in the financial markets. Furthermore, the ability of homeowners to assert any legal defense to foreclosure must not be compromised as a result of the GSEs being placed in conservatorship. We look forward to discussing the aforementioned issues as well as the future role of the GSEs. Please contact Deidre Swesnik, National Fair Housing Alliance, to schedule a meeting at 202.898.1661 x 131 or via email: DSwesnik@nationalfairhousing.org.

Sincerely,

ACORN
CDFI Coalition
Center for Responsible Lending (CRL)
Consumer Action
Consumer Federation of America (CFA)
Consumers Union
Dēmos: A Network for Ideas & Action
Lawyers' Committee for Civil Rights Under Law
Leadership Conference on Civil Rights (LCCR)
Mexican American Legal Defense & Educational Fund (MALDEF)
National Association of Consumer Advocates (NACA)
National Consumer Law Center (on behalf of its low-income clients)
National Council of La Raza (NCLR)
National Fair Housing Alliance (NFHA)
National NeighborWorks Association
National Policy and Advocacy Council on Homelessness (NPACH)
National Urban League (NUL)
Opportunity Finance Network
Rainbow Push Coalition