

March 15, 2013

President Barack Obama
The White House
1600 Pennsylvania Avenue NW
Washington, D.C. 20500

The Honorable Harry Reid
Senate Majority Leader
S-221 U.S. Capitol
Washington, D.C. 20510

The Honorable Mitch McConnell
Senate Minority Leader
S-230 U.S. Capitol
Washington, D.C. 20510

Re: New, permanent leadership at Federal Housing Finance Agency

Dear President Obama, Senate Majority Leader Reid, and Senate Minority Leader McConnell:

We write to urge you to expeditiously appoint and approve new, permanent leadership to the Federal Housing Finance Agency (FHFA). As state Attorneys General, we have spent the last several years grappling with the negative impacts of subprime and predatory lending practices and the resulting foreclosure crisis. Through actions against major banks and financial institutions, as well as innovative policy initiatives, we have brought a measure of relief to homeowners and stability to our economy.

Loan modifications are a key component of bringing relief to distressed borrowers and spurring our nation's economic recovery. These modifications have generally relied on a net-present value (NPV) analysis, which serves the dual purposes of helping borrowers remain in their homes and meeting the economic interests of lenders and investors. We have seen firsthand the positive impact of mortgage modifications, often including principal write-downs, on our housing market, economy, and communities. In fact, principal write-downs are a central component of the national settlement, negotiated by the federal government and a bi-partisan group of 49 state attorneys general, that was entered into with five major banks approximately one year ago.

When loan modifications employ principal write-downs as necessary to create an affordable modified loan, countless more families will avoid unnecessary foreclosure. Unfortunately, under the leadership of Acting FHFA Director Edward DeMarco, Fannie Mae and Freddie Mac remain an obstacle to progress by refusing to adopt policies that will help maximize

relief for homeowners. In particular, FHFA's refusal to adjust its policies to allow for principal forgiveness and forbearance stands as a major impediment to addressing the foreclosure crisis.

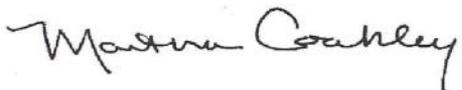
FHFA's continued position that principal forgiveness conflicts with its goal of asset preservation is not supported by reality. **The FHFA's current policy actually reduces the value of its holdings portfolio. It is far more profitable for any financial institution to hold a portfolio of performing \$200,000 mortgages that keeps families in their homes than a portfolio of non-performing \$250,000 mortgages headed toward default.**

FHFA's recalcitrance remains despite overwhelming evidence that mortgage modifications guided by a net-present value analysis, often including principal write-downs, provide significant dividends. Moreover, FHFA's refusal to consider principal write-downs as part of a comprehensive mortgage modification policy is inconsistent with its combined goal of asset preservation and foreclosure prevention. Simply put, by refusing to allow for principal write-downs that would result in more loan modifications, FHFA stands as a direct impediment to our economic recovery.

We have worked tirelessly, along with our federal, state, and local partners to develop a multi-pronged approach to dealing with the foreclosure crisis. Fannie Mae and Freddie Mac should be among our partners in this effort, and leaders in the arena of loan modification best practices. Instead, they have been an obstruction. We believe that until new, permanent leadership is named to FHFA, they will continue to stand as a roadblock to comprehensively addressing the foreclosure crisis.

Thank you for your consideration.

Cordially,



Martha Coakley
Massachusetts Attorney General



Eric T. Schneiderman
New York Attorney General



Kamala D. Harris
California Attorney General



Joseph R. "Beau" Biden, III
Delaware Attorney General



Lisa Madigan
Illinois Attorney General



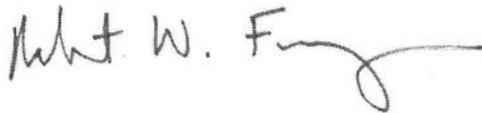
Douglas F. Gansler
Maryland Attorney General



Catherine Cortez Masto
Nevada Attorney General



Ellen Rosenblum
Oregon Attorney General



Bob Ferguson
Washington Attorney General