FEDERAL HOUSING FINANCE AGENCY
Office of the Director

September 27, 2011

The Honorable Elijah Cummings
Ranking Member
Committee on Oversight and Government Reform
U.S. House of Representatives
Washington, DC 20515

Dear Ranking Member Cummings:

Thank you for your recent letter to the members of the Federal Housing Finance Oversight Board regarding unemployment forbearance. As Chairman of that Board and Acting Director of the Federal Housing Finance Agency, I am pleased to respond.

The country's economic struggles of the past few years, most notably the high and persistent unemployment facing so many of our citizens, remains a critical issue. These conditions have caused millions of families to struggle with mortgage and rent payments, and have led to unprecedented delinquency and foreclosure rates. We all share the goal of finding a path forward that leads to jobs for all those seeking employment and stability in our housing system.

The question of unemployment forbearance is particularly challenging as it highlights the tension among valid yet sometimes competing policy goals and legal requirements facing FHFA as conservator of Fannie Mae and Freddie Mac (the Enterprises). On the one hand, FHFA and the Enterprises have a mission of providing stability and liquidity to housing finance, and especially to provide that support for affordable housing markets. On the other hand, with the Enterprises operating in conservatorship supported directly by taxpayers, FHFA has a direct statutory duty to conserve and preserve the property and assets of the Enterprises. As I have described to Congress on multiple occasions, this means minimizing further credit losses, which are borne by taxpayers.

Short-term forbearance for unemployed workers may achieve both of these goals by providing unemployed workers temporary relief from mortgage payments while seeking employment. If that search succeeds, the re-employed homeowner typically can resume their mortgage payments and foreclosure is avoided. Yet if unemployment persists during a lengthy period of forbearance, the borrower falls more deeply behind on their mortgage obligation. Even if the borrower ultimately becomes employed, the borrower may be unable to catch up on the accrued liability. Add stagnant or declining real estate prices as we have in most parts of the country today, and the risk to the Enterprises (and hence taxpayers), grows with each missed payment.

The amount of forbearance to offer as a general matter requires judgments regarding this balance. I appreciate that the statutory framework in which FHFA must assess this difficult question is not identical to that of other lenders or of government housing programs.

Currently, Fannie Mae's forbearance program, which covers unemployment and other circumstances such as health issues, gives mortgage servicers latitude to grant up to six months forbearance without seeking approval from the Enterprise. Any extension beyond that time requires Enterprise approval and a written forbearance plan, and is granted only in rare circumstances as the risk of loss has become much larger by that time. Freddie Mac permits the servicers discretion to offer up to three months forbearance with suspended payments and up to six months with partial payments. Analysis of hardship forbearance granted to borrowers who entered the program within the first month of delinquency shows a marked difference in performance between short-term forbearance (three months or less) and longer term (more than three months).

Based on that experience, I have concluded that a general program of six months forbearance is an appropriate balance, and will have Freddie Mac align with Fannie Mae's policy. In this process, FHFA has identified some additional differences in practice between the two Enterprises in granting forbearance. As a result, and consistent with other loss mitigation efforts, FHFA will be working with the two companies to more closely align their respective programs.

Finally, another important aspect of the Enterprises' forbearance programs is that borrowers will be examined for all other loss mitigation options, as needed, at the conclusion of the forbearance period.

I look forward to meeting with you to further discuss this important issue. Like you, other members of Congress, and the FHFA Oversight Board, FHFA will strive to review and improve policies and programs that provide appropriate assistance to unemployed homeowners consistent with our legal obligations.

Yours truly,

Edward J. DeMarco

Edward J. DeMarco
Acting Director