



September 26, 2008

The Honorable Henry Paulson  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220

The Honorable James B. Lockhart, III  
Federal Housing Finance Agency  
1700 G Street, NW  
Washington, DC 20552

Dear Secretary Paulson and Director Lockhart:

On behalf of the Mortgage Bankers Association (MBA), I appreciate your focused efforts to address the current financial markets disruption. MBA also values your openness to assess the merits of all proposals to calm the markets. MBA continues to evaluate various opportunities to restore liquidity to the housing finance market and direct assistance to borrowers in distress. During the course of this review, MBA has identified several measures that could be implemented by Fannie Mae and Freddie Mac. A list of ideas to explore is attached. MBA submits this list for your consideration, and would appreciate an opportunity to work with you to further assess their appropriateness and potential to aid the market and borrowers.

Please note that MBA's suggestions would not require statutory or regulatory modifications. In fact, some suggestions merely call for operational consistency or clarifications. However, these measures will enable mortgage lenders and servicers to respond in a timely fashion and with more flexibility to intervene earlier for borrower distress. The result will likely be more mortgage loan modifications and fewer foreclosures.

MBA looks forward to a collaborative review of these suggestions with Treasury and FHFA. Thank you for the work you are already doing to encourage liquidity in the secondary mortgage market.

Sincerely,

A handwritten signature in black ink that reads 'John A. Courson'.

John A. Courson  
Chief Operating Officer

Attachment

## Single-Family Mortgage Considerations

- GSE Fees: Reduce fees to reflect risk on a going forward basis, not prior losses of the GSEs.
- Loan modifications: There is inconsistency in whether the GSEs will allow modifications on loans in mortgage backed securities (due to the repurchase obligation). GSE guidance should be clarified to expedite and authorize MBS-related loan modifications.
- Distressed loans in pools: Develop a “fast track” mechanism to remove them closer to the triggering event rather than waiting until 60 days of delinquency.
- Provide servicers with additional delegated workout authority in order to minimize delays stemming from redundant reviews the GSE’s servicing staff.
- Many loans in the GSEs’ portfolios need significant restructuring to avoid foreclosure. One option would be a reduction in interest rate combined with an increase in term (e.g. increase to 40 years). A less favorable approach would be to forgive a portion of principal. The monthly payment associated with a rate reduction and term extension is similar to the payment derived from principal forgiveness without the moral hazard of writing down the loan balance. However, some borrowers might opt for foreclosure even with an affordable payment because they owe more than the house is worth and do not want to keep making payments on the soured investment.
- The GSEs should provide additional instruction on the servicer’s ability to reduce interest rates or use step rates on modifications.
- The GSEs should clarify the types of acceptable closing costs on short sales. For example, it should be clarified whether the following items are acceptable to come from the Net Proceeds; home warranties, pest inspections, buyers/sellers closing costs, etc. Clearer upfront instructions would minimize time spent during the transaction discussions between the borrower, the third party negotiating with on the borrower's behalf and the investor. This would result in more workouts in less time.
- GSEs have told servicers to forego Special Forbearances upon documenting the borrower's ability to pay by reviewing their income/debt ratio. However, when the file is submitted via Home Saver Solution Network, servicers are advised to put the borrower on an extended SFB. This continues to keep the loan rolling in default for three to four months and servicers cannot quickly get the loan to a performing status.
- Examine real estate broker commission structures the GSEs have in place for foreclosed and short-sale properties and the extent to which the fixed commissions are increasing potential taxpayer expense.

## **Multi-Family Mortgage Considerations**

- **GSE Fees:** Although the GSEs' multifamily programs are operating quite smoothly and providing liquidity in the multifamily markets, the primary concern for multifamily lenders has been recent increases in both GSEs' guarantee fees. For example, one GSE has almost doubled its multifamily guarantee fee since January. These increased fees have been imposed even though (1) both GSEs continue to experience extremely low delinquencies and defaults and (2) current underwriting is much more conservative than in the past, which should result in even lower default rates in the future. MBA requests that FHFA lower the GSEs' fees to a level that reflects risks on a going forward basis.
- **Ginnie Mae securities:** Another suggestion for providing immediate benefit is in the market for Ginnie Mae mortgage backed securities. In the past couple of weeks, that market has virtually disappeared – especially for Ginnie Mae construction loan securities. Treasury and FHFA could provide a real boost to this market by encouraging the GSEs to purchase multifamily Ginnie Mae securities (both construction and permanent loan securities) for portfolio.