



STATE OF NEW YORK
OFFICE OF THE ATTORNEY GENERAL
120 BROADWAY
NEW YORK, NY 10271

ERIC T. SCHNEIDERMAN
ATTORNEY GENERAL

(212) 416-8050

April 8, 2016

Melvin L. Watt
Director
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20024

Dear Director Watt:

I understand that Federal Housing Finance Agency (FHFA) is now considering providing principal reduction to families at risk of foreclosure. This is a policy that I have strongly advocated for, that I am pleased FHFA is now seriously evaluating, and that should be deployed broadly and quickly to homeowners in desperate need of this relief from the continuing damage caused by the housing crisis.

In my role as co-chair of the Residential Mortgage Backed Security working group, I have worked with federal and state partners to bring mortgage modifications and other types of consumer relief to tens of thousands of New York homeowners who are still struggling to avoid foreclosure. Yet there are still far too many homeowners suffering from the devastation of the housing crisis, a significant portion of whom are have mortgages insured by Fannie Mae and Freddie Mac. In 2013 alone there were nearly 60,000 homeowners in New York State who were delinquent on mortgages controlled by Fannie Mae and Freddie Mac, which is why that year eight state Attorneys General and I wrote to the President and the Congressional leadership, urging that FHFA adopt a principal reduction mortgage modification option as the most effective form of relief for government-sponsored enterprise (GSE) insured homeowners.

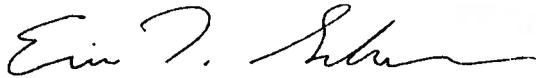
As you know, there is significant evidence that homeowners who are seriously delinquent on their mortgages are most likely to avoid foreclosure and remain in their homes when reduction of principal balance is part of a loan modification offer. While virtually all of the large commercial single family lenders now include principal reduction in their foreclose mitigation options for struggling borrowers, both Fannie Mae and Freddie Mac continue to deny this badly needed relief to consumers causing countless numbers of families to remain at risk. As I noted in 2013, FHFA's current "asset preservation" policy is both bad for homeowners and actually counter-

Melvin L. Watt
April 8, 2016
Page 2

productive, in that it reduces the value of its holdings portfolio assets. 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.

I know that you share my commitment to helping families who were victimized by this man-made crisis, and to making sure struggling families are given every opportunity to remain in their homes and their communities. I am encouraged that FHFA recognizes the need to change its policy. I urge you to move swiftly to create and implement a principal reduction loan modification program and to ensure that this relief is provided to as many homeowners as possible, as it is the surest way to help the tens of thousands of families, both in New York State and throughout the country, who desperately need this relief.

Sincerely,

A handwritten signature in black ink, appearing to read "Eric T. Schneiderman". The signature is fluid and cursive, with a long horizontal stroke at the end.

Eric T. Schneiderman