



Americans for Financial Reform
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June 25, 2014

The Honorable Mel Watt
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

Dear Director Watt,

On behalf of the undersigned faith, community, labor, civil rights and consumer organizations we would like to again offer our congratulations on assuming the leadership of the Federal Housing Finance Agency (FHFA). We are pleased to see the measures you are beginning to put into place that emphasize making homeownership and housing financing accessible and affordable and keeping families in their homes. However, the families and neighborhoods our groups work with continue to experience widespread devastation from the ongoing foreclosure crisis.

We write to you now on behalf of the millions of families who are still struggling with negative home equity, as well as those who are in danger of losing their homes through foreclosure, and the neighbors and communities hurt by foreclosures around them. The need to swiftly reverse the GSE policy on principal reduction remains a major priority for many organizations and community members.

As you know, in too many communities the housing and foreclosure crisis are not over. Millions of homeowners are still underwater, and those homeowners tend to be concentrated in hard hit neighborhoods of color; foreclosures overall remain significantly elevated above pre-crisis levels. As a result, families are needlessly losing their homes, children are being uprooted from their schools and neighborhoods are being further destabilized. As long as principal reduction is not an option for GSE loans, homeowners are denied access to the loan modification tool which the evidence shows is the most successful in preventing foreclosures. A 2012 study by Amherst Securities Group found that principal reduction is the most effective form of mortgage modification, with only 12% of borrowers re-defaulting on such modifications, compared with 23% for interest rate reduction modifications and 30% for forbearance modifications.¹

We urge you to move forward quickly to end the ban on principal reduction as a loss mitigation strategy and bring policies at the GSEs in line with those that are already the norm elsewhere in

¹ Amherst Securities Group LP, Modification Effectiveness: The Private Label Experience and Their Public Policy Implications, May 30, 2012, p.6

the market. This step would be consistent with your 2014 Strategic Plan to serve the needs of homeowners, communities, and taxpayers, with the conclusions of data reviewed by analysts at FHFA, and with practices already in place through Treasury HAMP and other programs.

Many economists and experts on the housing and securities markets have argued for principal reduction as a key element in addressing the housing crisis. Mark Zandi, Chief Economist at Moody's Analytics, testified before the Senate Banking Committee that encouraging more principal reductions offers "the best odds of ending the housing crash more quickly and definitively." Other supporters include Ben Bernanke, former Chairman of the Board of Governors of the Federal Reserve; William Dudley, President of the Federal Reserve Bank of New York; Martin Feldstein, Chairman of the Council of Economic Advisers under President Reagan; and Alan Blinder, former Vice Chairman of the Federal Reserve.

We urge you to harness your agency's powers, resources, and financial expertise to prevent more foreclosures and reduce negative equity, and to act expeditiously to revise FHFA policy against principal reduction in order to help American homeowners and communities.

Sincerely,

National Signatories

AFL-CIO

Action for the Common Good

American Civil Liberties Union Foundation

Americans for Financial Reform

Center for Popular Democracy

Center for Responsible Lending

Color of Change

Consumer Action

Home Defenders League

NAACP

The Leadership Conference on Civil and Human Rights

National Consumer Law Center (on behalf of its low-income clients)

National Council of La Raza

National Fair Housing Alliance

National People's Action

PICO National Network

Service Employees International Union

State and Local Signatories

A Just Harvest/Northside P.O.W.E.R. (IL)

Action NC

Alliance for a Just Society

Alliance of Californians for Community Empowerment (ACCE)

California Reinvestment Coalition

Center for NYC Neighborhoods

Centro Autonomo

Colorado Foreclosure Resistance Coalition

Colorado Progressive Coalition

Communities United (Maryland)

Communities United for Action (OH)

Community Legal Services, Philadelphia

Connecticut Citizen Action Group

Connecticut Fair Housing Center

Empire Justice Center

Idaho Community Action Network

Illinois/Indiana Regional Organizing Network

Iowa Citizens for Community Improvement

ISAIAH

Jewish Community Action

Lynn United for Change (MA)

Main Street Alliance

Maine People's Alliance

Massachusetts Communities Action Network

Minnesotans for a Fair Economy

Missourians Organized for Reform and Empowerment (MORE)

NAACP New Jersey State Conference

New Economy Project

New Jersey Citizen Action

NJ Communities United

Nobody Leaves Mid-Hudson (NY)

Occupy Denver

Occupy Our Homes Atlanta

POWER (CA)

Progressive Leadership Alliance of Nevada

Right To The City Alliance

Rights for All People (CO)

Sunflower Community Action (KS)

Virginia Organizing

VOCAL-NY

Washington Community Action Network

Woodstock Insitute

Working in Neighborhoods (OH)

