



STATE OF CALIFORNIA
OFFICE OF THE ATTORNEY GENERAL

KAMALA D. HARRIS
ATTORNEY GENERAL

February 24, 2012

Edward DeMarco
Acting Director
Federal Housing Finance Agency
1700 G Street NW
Washington, DC 20551

Dear Acting Director DeMarco:

I am writing in reference to the ongoing mortgage and foreclosure crisis facing California and your unique mandate as Acting Director of the Federal Housing Finance Agency (FHFA) to assist my state's homeowners.

Specifically, I write to request a suspension of foreclosure sales in California for the over 60% of loans owned or guaranteed by the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") until your agency has completed a thorough, transparent analysis of whether principal reduction is in the best interests of struggling homeowners as well as taxpayers.

Since 2008, more than half a million Californians have lost their homes to foreclosure, and California's 2012 "foreclosure pipeline" – meaning, homes currently in foreclosure or at imminent risk of a foreclosure filing in 2012 – has as many as another half million homes in it.

On February 9, 2012, my office announced that California will join a national servicing settlement that is estimated to provide nearly \$40 billion in benefits to borrowers across the country. Much of the homeowner benefit to be provided by this settlement is a substantial program of principal reductions. California has extracted a guarantee that under the settlement the three largest servicers will perform a minimum of \$12 billion worth of principal reductions and short sales for those eligible California borrowers, with special incentives to speed relief to the state's hardest-hit communities.

When performed, this California guarantee will result in a large-scale, directed program of principal reductions, and I know this effort will confirm what many economists have already concluded: principal reduction programs are the most helpful form of loss mitigation for homeowners and the most cost effective for investors when compared to foreclosures.

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Because Fannie Mae and Freddie Mac collectively own or guarantee over 60% of the mortgages in California, their future conduct will necessarily play a central role in bringing this crisis to an end in my state. But, as you know, the national servicing settlement will not directly impact those California loans owned or guaranteed by Fannie Mae or Freddie Mac because you have consistently declined to authorize principal reduction programs by these government-sponsored enterprises.

I also understand that the Ranking Member of the Committee on Oversight and Government Reform has requested in a February 8, 2012 letter that you provide additional data in support of your position that principal reductions would not serve taxpayer interests more effectively than any other alternative. According to the February 8, 2012 letter, FHFA's latest analysis does indeed demonstrate that principal reductions, of all the available alternatives, would best serve taxpayer interests. The February 8, 2012 letter also asserts that you have the statutory authority to begin principal reductions, as demonstrated by a pilot program for principal reduction developed at Fannie Mae, which had obtained all the appropriate legal and accounting approvals before being terminated in 2010 by senior officials for reasons described as "philosophical."

As ground zero for this mortgage and foreclosure crisis, California's underwater homeowners deserve a straight-forward analysis from FHFA of whether a program of principal reduction by Fannie Mae and Freddie Mac will provide significant assistance to struggling homeowners as well as save precious taxpayer dollars. Indeed, the large-scale program of principal reduction set to begin in my state represents an historic opportunity for you to work with us to study the impact of this program in California and to support principal reduction pilot programs by Fannie Mae and Freddie Mac in our hardest hit communities.

While your agency gathers this information, a good-faith pause on foreclosure sales in California is only appropriate to ensure that the large number of currently struggling California borrowers with Fannie Mae and Freddie Mac loans will have an opportunity to reduce the principal on their home loans should your analysis find – as I believe it must – that principal reductions by those enterprises are in the best interest of homeowners and taxpayers.

I look forward to your response and thank you in advance for your cooperation with my office.

Sincerely,



Kamala D. Harris
Attorney General