
FEDERAL HOUSING FINANCE AGENCY



NEWS RELEASE

For Immediate Release
January 23, 2012

Contact: Corinne Russell (202) 649-3032
Stefanie Johnson (202) 649-3030

FHFA Releases Analysis on Principal Forgiveness As Loss Mitigation Tool

Washington, DC – In response to a request from members of Congress, the Federal Housing Finance Agency (FHFA) has publicly disclosed the analysis that led the agency to exclude principal forgiveness from its menu of loss mitigation tools. On Friday, FHFA delivered to Representative Cummings, Representative Tierney and other members a [letter](#) summarizing the agency's determination and three separate staff analyses prepared over the past year that formed the basis for the determination.

As requested, the information here provides the analytic and legal basis for FHFA's previously announced determination on the use of principal forgiveness as a loss mitigation tool. FHFA is not seeking any legislative action in this area. FHFA remains committed to achieving its statutory mandate to conserve the assets and property of Fannie Mae and Freddie Mac in conservatorship while maximizing assistance to troubled homeowners, mindful of the net present value cost to taxpayers. As FHFA has noted before and states in the letter, changing circumstances may call for an updating of our analysis.

Background

Each month, FHFA reports on the full array of loss mitigation activities undertaken by Fannie Mae and Freddie Mac, including loan modifications. Each quarter, FHFA reports on the redefault rates on loan modifications. Those *Foreclosure Prevention & Refinance* reports may be found [here](#). Since establishment of the conservatorships, Fannie Mae and Freddie Mac have modified more than one million mortgages and undertaken about 2 million foreclosure prevention actions. Notably, the re-performance rate on loan modifications has improved substantially as the modifications themselves now typically involve far greater reductions in monthly payments than did modifications in the early months of the housing crisis.

When a homeowner owes more on their mortgage than the property is worth, this is typically referred to as being underwater on a mortgage. Being underwater does not imply that a borrower lacks the ability or the desire to make good on one's financial obligation, nor does it relieve a household from that responsibility. Indeed, FHFA estimates that, as of June 30, 2011, Fannie Mae and Freddie Mac held 1.4 million mortgages with current loan-to-value ratios above 115 percent. Of these, 1 million were current and 176,000 had been delinquent for more than a year. For delinquent and deeply underwater borrowers, Fannie Mae and Freddie Mac offer loan modifications that include principal forbearance, which means no interest is charged on a portion of the underwater amount.

Finally, for underwater borrowers who remain current on their mortgage, last October FHFA [announced](#) changes to the Home Affordable Refinance Program (HARP), which further enhance the opportunity to refinance. These HARP changes allow these underwater borrowers whose mortgages are owned or guaranteed by Fannie Mae and Freddie Mac to take advantage of today's lower mortgage rates and to shorten their mortgage term, which would enable borrowers to get back above water more quickly.

###

The Federal Housing Finance Agency regulates Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks. These government-sponsored enterprises provide more than \$5.7 trillion in funding for the U.S. mortgage markets and financial institutions.