
FEDERAL HOUSING FINANCE AGENCY



STATEMENT

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STATEMENT BY EDWARD J. DEMARCO, ACTING DIRECTOR, FEDERAL HOUSING FINANCE AGENCY, ON THE USE OF PRINCIPAL FORGIVENESS BY FANNIE MAE AND FREDDIE MAC

Today, I provided a response to numerous congressional inquiries as to whether the Federal Housing Finance Agency (FHFA) would direct Fannie Mae and Freddie Mac to implement the Home Affordable Modification Program Principal Reduction Alternative (HAMP PRA). After extensive analysis of the revised HAMP PRA, including the determination by the Treasury Department to begin using Troubled Asset Relief Program (TARP) monies to make incentive payments to Fannie Mae and Freddie Mac, FHFA has concluded that the anticipated benefits do not outweigh the costs and risks. Given our multiple responsibilities to conserve the assets of Fannie Mae and Freddie Mac, maximize assistance to homeowners to avoid foreclosures, and minimize the expense of such assistance to taxpayers, FHFA concluded that HAMP PRA did not clearly improve foreclosure avoidance while reducing costs to taxpayers relative to the approaches in place today.

I have also previewed for Congress several housing-related initiatives to strengthen the loss mitigation and borrower assistance efforts of Fannie Mae and Freddie Mac as well as improve the operation of the housing finance market. These initiatives include new and consistent policies for lender representations and warranties, alignment and simplification of the Enterprise short sales programs, and further enhancements for borrowers looking to refinance their mortgages.

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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.

Note: The Federal Housing Finance Agency is releasing extensive documentation of its analysis and the basis for our policy conclusions. The documents being released include FHFA's [correspondence to numerous members of Congress](#), which includes a [paper](#) that describes the economic analyses undertaken, including the modeling results and the assessment of related operational costs and costs associated with the effect principal forgiveness may have on future defaults. A [technical appendix](#) to the paper describes the modeling work done to assess principal forgiveness and the sensitivity of the modeling results to various assumptions about borrower characteristics and borrower response. Also being released today are separate analyses of HAMP PRA undertaken by [Fannie Mae](#) and [Freddie Mac](#) and reported to FHFA by each company.