

United States House of Representatives
Committee on Financial Services
Washington, D.C. 20515

October 21, 2011

Mr. Edward DeMarco
Acting Director
Federal Housing Finance Agency
1700 G Street, NW - 4th Floor
Washington, DC 20552

Dear Mr. DeMarco,

In a September address to a joint session of Congress, President Obama announced his Administration's intent to implement a mortgage refinancing plan that, in the President's words, would "help more people refinance their mortgages at interest rates that are now near 4 percent." Press reports indicate that the President may seek to implement this refinancing plan, at least in part, through Fannie Mae and Freddie Mac, and that the President has called on the Federal Housing Finance Agency ("FHFA"), which oversees the Enterprises, to approve their participation in the initiative.

I am writing because I am concerned that Freddie and Fannie could incur substantial costs in connection with implementing the President's refinancing plan, potentially forcing the Enterprises to draw further on Treasury's financial "backstop." I therefore respectfully request that you answer the following questions before any decision is made by FHFA to implement such a refinancing plan, but no later than 14 days from the date of this letter:

- (1) Freddie and Fannie own substantial mortgage portfolios, both of which include investments in Mortgage-Backed Securities ("MBS"). When borrowers refinance, they pay off the loans that are pooled into MBS ahead of schedule, and MBS investors realize lower returns as a result. Does any refinancing plan currently under consideration call for mortgages that form parts of Freddie- or Fannie-owned MBS pools to be refinanced? If so, please detail the extent of the Enterprises' MBS holdings and the cost to Freddie and Fannie that would result if FHFA were to adopt such a plan.
- (2) Freddie and Fannie also retain a significant number of mortgage loans in their investment portfolios. Does any refinancing plan currently under consideration call for all, or some portion, of these mortgages to be refinanced? If so, what would be the cost, if any, to the Enterprises were FHFA to adopt such a plan?
- (3) A mortgage originator that sells a mortgage to Freddie or Fannie warrants that it properly underwrote the relevant loan. When an issuer breaches that warranty, Freddie or Fannie has a cause of action against the issuer and may recover damages, but refinancing could require Freddie or Fannie to give up its right of recourse against the originator. Under any plan being considered by FHFA, would Freddie or Fannie be compelled to forgo the benefit of such a warranty? If so, what would be the cost of such a plan to the Enterprises?
- (4) Please detail the extent to which, if at all, any refinancing plan currently under consideration would reduce foreclosure rates on properties as to which Freddie and Fannie own a mortgage or mortgage-related security interest. If the data indicate that any such effect would be limited or non-existent, how would FHFA

weigh that fact in considering whether to implement a new mortgage refinancing initiative?

- (5) Congress intended that, as an independent agency of the United States, FHFA would enjoy a degree of insulation from the executive branch in the formulation and implementation of policy. Please detail the extent of the Obama Administration's contact with FHFA concerning the development and implementation of any refinancing plan currently under consideration. In particular, please produce any and all records, documents, and correspondence, in whatever form and however stored, between FHFA and the Administration that is in the possession of FHFA and that is responsive to this question. Please submit all records in electronic format to the Committee no later than the due date of this letter.

In considering the possible cost and benefits of a mortgage refinance program, FHFA must not simply endorse a backdoor stimulus: FHFA must ensure, consistent with its statutory mandate and its duty as conservator of the Enterprises, that any mortgage refinance program enhances the safety and soundness of the Enterprises by strengthening the housing market, while at the same time protecting taxpayers. I look forward to your response.

Sincerely,



RANDY NEUGEBAUER

Chairman

Subcommittee on Oversight and Investigations