



August 29, 2008

The Honorable Barney Frank
Chairman, Committee on Financial Services
United States House of Representatives
Washington, DC 20515

The Honorable Maxine Waters
Chairwoman, Subcommittee on Housing and Community Opportunity
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

The Honorable Melvin L. Watt
Chairman, Subcommittee on Oversight and Investigations
Committee on Financial Services
United States House of Representatives Washington, DC 20515

The Honorable Brad Miller
Committee on Financial Services
United States House of Representatives Washington, DC 20515

Dear Chairman Frank, Chairwoman Waters, Chairman Watt & Representative Miller:

Thank you for your letter asking the mortgage industry to consider forbearing foreclosures in anticipation of the October 1, 2008 implementation of the Hope for Homeowners program. We are eager to help the Hope for Homeowners program become another effective tool for servicers and investors to help keep homeowners in distress in their homes. This letter responds to the specific questions raised in your August 5, 2008 letter to me.

Identifying and Evaluating Qualifying Borrowers

The Mortgage Bankers Association is working closely with the Department of Housing and Urban Development (HUD), the Department of the Treasury, the Federal Reserve and the Federal Deposit Insurance Corporation (FDIC) (collectively known as the Oversight Board) to garner significant support for the Hope for Homeowners program from all constituents, including borrowers, originators, servicers, investors and insurers. It is important to understand, however, that several critical borrower eligibility provisions are still being discussed by the Oversight Board, such as underwriting criteria and the formula for equity and appreciation sharing. Until these parameters have been established, the industry cannot accurately identify which borrowers may qualify for the program and, therefore, which borrowers should be considered for pre-implementation forbearance. Nevertheless, our members have assured us that ongoing forbearance

activities will possibly capture candidates for Hope for Homeowners refinance transactions, although they may find that some people who are granted forbearance may not ultimately qualify for the program.

As demonstrated by HOPE NOW's Project Lifeline, servicers commonly grant forbearance while evaluating a borrower's request for loss mitigation. Servicers are performing record volumes of loss mitigation helping many borrowers today. HOPE NOW data indicate that servicers prevented over 2 million foreclosures through modifications and repayment plans between June 2007 and July 2008. Other modification options are also offered that are not captured in these numbers, including forbearances, advance claims and delinquent refinances.

These activities will continue during the regulation-writing period with the same urgency. Servicers will continue to evaluate borrowers for loss mitigation, including forbearance, modifications, repayment plans and other foreclosure avoidance options. Borrowers with a willingness to retain their home and with reasonable financial means to do so will be considered for a range of options, including forbearance from foreclosure. In many cases, borrowers will be more immediately served through a modification and will not need to wait for the new Hope for Homeowners program.

MBA is also working to make the Hope for Homeowners program the best tool it can be by sharing its views with the Oversight Board on how to address several critical questions that will ultimately determine how broadly the program can be used. These questions include how to structure the shared appreciation, how to secure the rights to equity and appreciation sharing and what the underwriting standards will be. At the same time, investors, such as Fannie Mae, Freddie Mac and even Ginnie Mae must define the extent to which the program can be used on their pooled or insured loans. MBA has identified several statutory provisions which may limit the applicability of the program and as they are identified, we are working quickly and closely with the appropriate agencies to develop solutions. Indeed, loss mitigation activities will continue with the same urgency, even while regulations and guidance are in flux.

Ultimately, the goal is to help more borrowers in distress stay in their own homes. Accordingly, while we work to make Hope for Homeowners the best program it can be, we are also continuing to focus on enhancing other tools, particularly *FHASecure*, to ensure that borrowers and lenders have all of the tools they need to reach the best possible outcomes.

Principal Reductions to Qualify Borrowers

Your letter specifically asked whether servicers will write down the principal necessary to qualify a borrower for the program. Servicers have indicated that writing down principal will be considered provided that it is not prohibited by investment contracts. In determining the correct course of action when comparing principal write-downs to

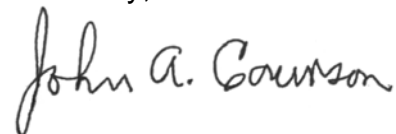
modifications or other loss mitigation options, the servicer is duty-bound to take the course that has the least negative impact on the investor or its own shareholders. As stated at the hearing before the House Financial Services Committee on July 25, modifications of the term, interest rate and/or principal deferrals are always preferred over principal write-down as they have less financial impact on the investor and are often better for the borrower. In the vast majority of cases, affordability can be achieved through modification without the need for principal write-downs. Moreover, in many cases, modifications and other loss mitigation tools will have less impact on the borrower by avoiding premium charges, closing costs and equity/appreciation sharing. As a result, we do anticipate that loss mitigation will outpace originations of Hope for Homeowners loans. This is not an undesirable outcome – as members of the Committee acknowledged at the hearing. The objective is to keep willing borrowers in their homes when they have reasonable resources to do so. The Hope for Homeowners program will be a valuable tool, but it will have most value for people for whom other forms of loss mitigation do not work.

Previous Modifications as an Additional Obstacle to Refinance

Lastly, you also request information as to whether a previous modification would disqualify a borrower from a Hope for Homeowners loan. MBA believes a previous loan modification would not disqualify a borrower from the principal modifications required by the Hope for Homeowners program. Servicers will consider a borrower for another work out option despite a previous modification. We understand that borrowers' situations change and that modified payments approved in the past may not accommodate current financial circumstances. Again, servicers will have to determine which alternative is a better course of action – a refinance through the Hope for Homeowners program or an additional modification. It is important to point out that borrowers who repeatedly default without additional hardship, who fail to adequately adjust their spending habits or fail to pursue adjustment to non-housing debt contributing to their financial difficulties will find servicers and investors are reluctant to take additional losses. This is a reasonable business decision and one that is based on the particular circumstance of the borrower.

MBA appreciates this opportunity to respond to these important questions. We would welcome the opportunity to speak with you at length about the implementation of this program, particularly when the Oversight Board finalizes its requirements and servicers have the opportunity to properly analyze the loans and borrowers with which they work.

Sincerely,



John A. Courson
Chief Operating Officer