

**Congress of the United States**  
**House of Representatives**  
**Washington, DC 20515**

November 9, 2012

Mr. Douglas W. Elmendorf  
Director  
Congressional Budget Office  
Ford House Office Building, 4th Floor  
Second and D Streets, SW  
Washington, DC 20515-6925


Dear Mr. Director:

We request that the Congressional Budget Office undertake an analysis of the potential budgetary impact of Fannie Mae and Freddie Mac offering principal forgiveness as part of their mortgage loan modification efforts. Despite loan modifications offered through the Home Affordable Modification Program (HAMP) and other initiatives, a significant number of their borrowers remain at risk of foreclosure. This is particularly true for borrowers who owe more than the value of their homes, a population that comprises approximately 20% of Fannie and Freddie portfolios. Although private sector mortgage companies offer borrowers a variety of principal forgiveness modification programs, the Federal Housing Finance Agency refuses to allow Fannie and Freddie to offer such modifications.

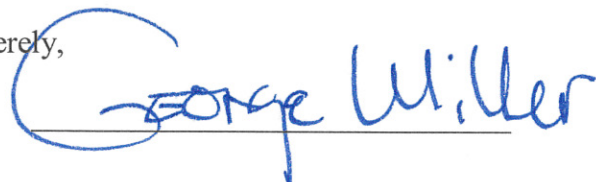
In particular, we request that the study include the following topics relating to mortgages owned or guaranteed by these government sponsored enterprises (GSEs):

- An overview of existing options for underwater GSE borrowers, and if possible, the effectiveness of these options by loan-to-value ratio (e.g., 115% LTV v. 150% LTV);
- An analysis of the expected budgetary cost of offering principal forgiveness, including HAMP Principal Reduction Alternative and a proprietary program that puts borrowers in a positive equity position (notwithstanding the HAMP parameters on targeted post-modification loan-to-value), to a population of GSE loans relative to the standard HAMP modification currently offered by the GSEs; and
- An evaluation of potential mitigants, including the use of shared appreciation or shared equity approaches, to address concerns regarding any potential moral hazard that offering principal forgiveness might create, as well as an analysis of the budgetary impacts of those mitigants.

If possible, we request that this report be issued by March 2013.

  
Elijah E. Cummings  
Ranking Member  
Committee on Oversight and  
Government Reform

Sincerely,

  
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