

United States House of Representatives
Committee on Financial Services
Washington, D.C. 20515
September 20, 2010

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

Dear Mr. DeMarco:

On September, 15, 2010, you testified before the Financial Services Committee's Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises about the status of Fannie Mae's and Freddie Mac's conservatorships and what is being done to minimize taxpayer losses from the GSEs' mortgage businesses.

As you know, I am concerned about new Fannie Mae programs like *Affordable Advantage* and *HomePath Mortgage* that seem to promote the same kind of lax underwriting standards and imprudent loan terms that helped bring the GSEs to the brink of collapse in 2008. During the course of the hearing, you responded to Republican concerns and expressed similar reservations about *Affordable Advantage*, a program to assist first-time homebuyers by requiring very small or no down payments, stating that the program had been initiated by Fannie Mae without your prior knowledge or approval.

As the *New York Times* reported on September 4, 2010, people are buying homes under the *Affordable Advantage* program with just *67 cents* for a down payment. Another Fannie Mae initiative -- *HomePath Mortgage* -- appears designed to facilitate the sale of some Fannie Mae-owned real estate, and is also characterized by relaxed lending standards. The common characteristics of these new programs appear to be high loan-to-value ratios, below-average credit scores and low or no down payments.

Economists agree that the roots of the current problems in the mortgage market can be traced to earlier this decade, when falling interest rates encouraged lenders to significantly relax -- and in some cases abandon -- sound underwriting criteria. Lenders risked long-term stability by raising loan-to-value ratios in order to grow short-term profits.

While the availability of affordable mortgage credit is important, Fannie Mae is a taxpayer-owned, government-run institution that should employ only the most prudent financial practices and standards. It has been established that borrowers with low-or no-down payments and lower credit scores default more frequently on their mortgage loans. In fact, as you said during your testimony before the Financial Services Committee on Wednesday, "I believe borrowers should have a down payment if they are going to purchase a house, and I have found that the terms of this program [*Affordable Advantage*] did not fit with what we are trying to accomplish here in conservatorship, and that's why you won't be hearing about additional programs such as this."

Mr. Edward J. DeMarco

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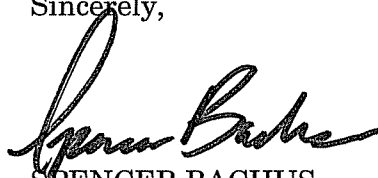
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Given our shared concerns about taxpayer exposure surrounding these ill-advised programs, I would appreciate it if you would answer the following questions in writing:

1. What is Fannie Mae's total dollar exposure for all *Affordable Advantage* loans?
2. How many borrowers have purchased homes with *Affordable Advantage* loans?
3. What is the average percentage down payment for an *Affordable Advantage* financed-property? How many borrowers, if any, use gift assistance from non-profits or family members to meet the \$1000 contribution requirements?
4. What is the default rate for *Affordable Advantage* borrowers? Have you recorded first payment defaults? If so, how many?
5. How did communication between Fannie Mae and your agency break down, enabling the *Affordable Advantage* program to proceed without your knowledge? What steps will your agency take to ensure that similar break downs do not occur and that similar programs are not approved? Are appropriate product approval processes in place at FHFA?
6. What are the current down payment trends of loans being purchased by Fannie Mae and Freddie Mac?
7. Has Freddie Mac proposed engaging in programs similar to *Affordable Advantage* and *Home Path Mortgage*?

Thank you for your consideration of this request. I look forward to your prompt response.

Sincerely,

A handwritten signature in black ink, appearing to read "Spencer Bachus", written in a cursive style.

SPENCER BACHUS
Ranking Member