Cummings and Tierney Question DeMarco's Statements to Congress; Request Direct Interviews with Fannie Officials

Washington, DC (May 1, 2012) – Today, Rep. Elijah E. Cummings, Ranking Member of the House Committee on Oversight and Government Reform, and Committee Member John F. Tierney sent a letter to Edward DeMarco, the Acting Director of the Federal Housing Finance Agency (FHFA), regarding internal documents showing that Fannie Mae officials concluded as far back as 2009 that reducing principal on mortgages backed by Fannie Mae could save U.S. taxpayers money by avoiding foreclosures, directly contradicting DeMarco's testimony to Congress in November 2011.

"Contrary to your testimony, we have now obtained a wide range of internal documents demonstrating that Fannie Mae officials conducted detailed, substantive analyses and concluded years ago that principal reduction programs have enormous potential to save U.S. taxpayers significant amounts of money by reducing overall losses from foreclosures following default," Cummings and Tierney wrote.

The Congressmen obtained documents from a former Fannie official labeled "confidential," "proprietary," and "internal" that DeMarco apparently has been withholding from Congress. They also obtained additional documents from DeMarco in response to a request they first made last November.

Together, the internal documents describe nearly a year of work by Fannie Mae and Citibank to develop a "shared equity" pilot program to prevent foreclosures, avoid losses to U.S. taxpayers, help the overall housing market, and mitigate the risk of "moral hazard" by requiring homeowners to share part of any future appreciation with the government. The program was mysteriously terminated in July 2010 due to unspecified "operational" challenges.

"Based on the documents we have obtained, it appears that the shared equity principal reduction pilot program should have been implemented years ago, and the failure to do so may have resulted in unnecessary losses to U.S. taxpayers," they added. "This was not merely a missed opportunity, but a conscious choice that appears to have been based on ideology rather than Fannie Mae's own data and analyses."

Among the documents described in their letter is a November 2009 presentation to Fannie Mae's Risk Subcommittee which concluded that "[t]he business case for shared equity is strong" and that "underwater borrowers will perform better on a modification that reestablishes equity."

In December 2009, a Business Case for the program concluded that "there are high negative impacts to not implementing" the program, and that it "will have some positive impact on the industry." It estimated that implementing the program would cost about $1.7 million, while the benefits could total more than $410 million.

A series of internal e-mails show how the program was approved internally after many months of study and analysis. In response to a request for approval, Fannie Mae's Risk Officer for the Credit Portfolio responded: "I approve." When the program was canceled, however, Citibank officials were taken aback and demanded to know what changed at the "11th hour."

"Despite the clear conclusion reached by Fannie Mae officials that principal reduction would reduce losses to the taxpayer, this pilot program was prevented from ever getting off the ground," Cummings and Tierney wrote. "It remains unclear why you failed to mention this in your testimony and why you failed to disclose this principal reduction program."

A former Fannie Mae employee informed Cummings and Tierney that the principal reduction pilot program could have been the model for a much larger program that would have saved taxpayers even more. He stated: "I believe that we could be saving tens of billions of dollars while also helping stabilize housing prices and stimulating economic growth."

On November 16, 2011, DeMarco testified before the Oversight Committee that he had examined data and analyses from Fannie Mae and Freddie Mac and concluded that principal reduction "is not going to be the least-cost approach for the taxpayer."

Since then, Cummings and Tierney have been seeking the documents pertaining to DeMarco's decision to forbid Fannie Mae and Freddie Mac from reducing principle of loans they back, as requested in letters to FHFA on November 30, 2011 , and February 8, 2012 . Their letter today requests direct interviews with Fannie Mae officials whose names appear in the documents, as well as all drafts of DeMarco's previous responses to Congress.