



Federal Housing Finance Agency

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June 16, 2010

The Honorable Bill Nelson
United States Senate
716 Hart Senate Office Building
Washington, DC 20510

The Honorable Mary Landrieu
United States Senate
328 Hart Senate Office Building
Washington, DC 20510

Dear Senator Nelson and Senator Landrieu:

On behalf of the Federal Housing Finance Agency, acting as conservator for Fannie Mae and Freddie Mac (Enterprises), I am responding to your April 2010 letters, to the Chief Executive Officers of the Enterprises regarding defective drywall.

FHFA worked with the Enterprises to ensure appropriate policies regarding defective drywall. Those policies have just been released to the Enterprises' servicers; Fannie Mae's policy will be in effect in mid July 2010, and Freddie Mac's policy is already in effect. In summary, Fannie Mae has directed its servicers to provide qualifying homeowners with problem drywall up to six months forbearance under its unusual hardships policy. Freddie Mac has directed its servicers to reduce or suspend mortgage payments for up to 12 months for qualifying homeowners under its distressed property chapter of the seller/servicer guide. Each Enterprise will minimize the impact of a forbearance on the homeowners' credit rating. The details of these policies are attached to this letter.

Homeowners wishing to mitigate problems with contaminated drywall should contact their mortgage servicers directly. Should you require any additional information, please contact me at (202) 414-3799.

Sincerely,

Peter Brereton
Associate Director for Congressional Affairs

attachments

Freddie Mac's Policy Approach Regarding Problem Drywall

June 11, 2010

This memorandum outlines Freddie Mac's policy approach for addressing cases of problem drywall in residential properties securing Freddie Mac-owned mortgages and REO properties owned by Freddie Mac. In short, Freddie Mac does not have an official Seller/Servicer Guide policy specifically relating to problem drywall, but our policy approach is to address this issue on a case-by-case basis, using various existing Guide policies we have used to provide relief to borrowers whose homes have been affected by toxic molds or other environmental or structural problems.

Background and approach

Beginning in early 2009, federal and state authorities have been receiving reports of foul odors, health problems, and corrosion of metal components in homes built with drywall imported from China. More than 90 percent of these reports come from several Gulf Coast states, principally Florida. A federal investigation led by the Consumer Product Safety Commission (CPSC) has found a strong correlation between certain drywall produced in China, elevated levels of hydrogen sulfide gas in the homes, and corrosion of metal components. To date, no correlation between drywall and reported health effects has been established, but the issue remains under study. The CPSC also has set forth preliminary protocols for identifying and removing problem drywall in dwellings.

In a limited number of instances, residential properties securing Freddie Mac-owned mortgages and REO properties owned by Freddie Mac are believed to contain or potentially contain problem drywall. Freddie Mac has found that the preliminary protocols set forth by the CPSC for identifying and remediating problem drywall are helpful but of limited utility. In particular, it remains difficult to confirm the existence of problem drywall, and it is very difficult to confirm the ability of contractors to identify and remediate it. Addressing problem drywall through a broad policy at this juncture could expose Freddie Mac to significant losses, and there is significant potential for fraud and abuse by both borrowers and contractors.

Accordingly, Freddie Mac's current policy approach is to address this type of distressed property on a case-by-case basis, with the objective of ensuring that our approach is consistent among similarly situated borrowers and customers. We believe a case-by-case approach is appropriate because each borrower/customer's situation varies on a number of factors. Our specific policy approach for addressing problem drywall in single-family homes and multifamily dwellings securing mortgages we own and in REO properties we own are set forth below.

Single-family homes securing Freddie Mac-owned mortgages

To date, fewer than 40 single-family homes securing Freddie Mac-owned mortgages are believed to contain or potentially contain problem drywall. We recognize that for each of these borrowers, the existence of problem drywall and potential related property damage pose potentially significant financial losses. Our policy objective thus is to provide affected borrowers who lack the

capacity to address this problem themselves with appropriate assistance tailored to their particular circumstances. In each of these cases, Freddie Mac may treat the home as a distressed property under Chapter 67 of the Guide and/or provide borrowers loss mitigation and forbearance options under Chapters 65 and A65. These policies provide a number of ways for mortgage servicers to provide help to borrowers, including reducing or suspending mortgage payments for up to 12 months, waiving assessments of penalties or late fees against borrowers, not reporting forbearance or delinquencies caused by the existence of the drywall to the nation's credit bureaus, and suspending foreclosure and eviction proceedings for up to 12 months. Any or all of these forms of relief can be made available to homeowners who lack the capacity to address problem drywall in their homes without assistance.

Multifamily property securing Freddie Mac-owned mortgages

Until recently, Freddie Mac had received no reports of the possible existence of problem drywall at any multifamily property financed by Freddie Mac-owned mortgages. However, we were recently made aware of a couple of properties that is believed by the borrower to contain problem drywall. The borrowers are investigating the matter, and in one case the borrower recently provided information and a formal forbearance request that is under review by Multifamily Asset Resolution and Freddie Mac Legal. To date we have not determined a broad based policy response for addressing problem drywall in multifamily properties. We are, however, mindful of the impact of this problem on both the property owner and the renters, and we are prepared to consider any equitable relief that may be warranted within the context of our loan level loss mitigation policies and procedures, as well as those property management and asset preservation policies and procedures related to REO assets.

REO properties owned by Freddie Mac

Freddie Mac to date is aware of the possible existence of problem drywall in approximately 50 single-family REO properties we currently own. Because of the aforementioned difficulties in both confirming the existence of problem drywall and ensuring its complete removal from a dwelling, Freddie Mac has decided, for the time being, not to attempt to remove and replace it from our REO properties. Instead, we disclose to actual and potential purchasers of these particular properties the possible presence of problem drywall. We may revisit this policy in the future as protocols for identifying and remediating problem drywall are more fully developed.

Looking ahead

We continue to monitor developments in this area and will continue to reevaluate our policies to reflect these developments as needed. Freddie Mac will inform FHFA of any material changes to our policy for addressing problem drywall.

Contact: Janis Smith
202-752-2078

Number:

Date: June , 2010

FANNIE MAE POLICY WILL PROVIDE IMMEDIATE RELIEF FOR HOMEOWNERS WITH PROBLEM DRYWALL

WASHINGTON, DC – Fannie Mae (FNM/NYSE) today announced that the company will institute a new, national policy that provides relief for homeowners who have problem drywall in their homes. Under the company’s broad “Unusual Hardships Policy,” Fannie Mae will direct its servicers to provide qualifying borrowers who have problem drywall up to six months of forbearance on their mortgage loan payments. The company will also instruct servicers to minimize the derogatory credit impact for borrowers who are current on their loans and complying with the terms of the forbearance.

“This relief is intended to help borrowers who need payment flexibility as they take steps to mitigate problems with problem drywall” said Terry Edwards, Executive Vice President. “The issue potentially affects thousands of homeowners in a number of states, and we want to support those who are responsibly trying to honor their mortgage obligation in good faith while correcting the problem and protecting the health and safety of their families.”

Fannie Mae servicers will be required to document and evaluate each borrower’s circumstances on a case-by-case basis, and require a property inspection to confirm the existence of the problem drywall. When a servicer determines that a borrower has an unusual hardship such as problem drywall that affects the borrower’s ability to continue making mortgage payments, then the servicer may offer forbearance terms initially for no more than six (6) months. Extended terms require Fannie Mae approval.

Fannie Mae will also direct servicers to minimize the derogatory credit impact for eligible borrowers. For a borrower who is current when the forbearance is granted, the servicer will report as “current but on a modified payment” if the borrower is complying with the terms of the forbearance. For a borrower who is delinquent when the forbearance is granted, the servicer will continue delinquency reporting.

(more)

“Unusual Hardships” Policy

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Defective drywall was imported in large quantities and used by some homebuilders and contractors during the housing boom and after the Gulf Coast hurricanes in 2005. The defective drywall has been linked to possible health effects and has been reported to cause corrosion of electrical wiring, appliances, heating and air conditioning systems and other fixtures.

Fannie Mae’s “Unusual Hardships Policy” will go into effect in mid-July, and additional details will be made available at that time on www.efanniemae.com.

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Fannie Mae exists to expand affordable housing and bring global capital to local communities in order to serve the U.S. housing market. Fannie Mae has a federal charter and operates in America's secondary mortgage market to enhance the liquidity of the mortgage market by providing funds to mortgage bankers and other lenders so that they may lend to home buyers. Our job is to help those who house America.