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FAX TRANSMITTAL

To: **Honorable Rodney Frelinghuysen**

Date: **May 4, 2005**

Office of: **US House of Representatives**

Time: **4:22 PM**

Facsimile Number: **973.292.1569**

From: **Joanne Hanley**

Telephone No.: **202.414.3812**

Office of: **Congressional Affairs**

Page **1** of **2**

Notes/Comments:

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OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3800
Office of External Relations

May 4, 2005

Honorable Rodney P. Frelinghuysen
U.S. House of Representatives
30 Schuyler Place, Second Floor
Morristown, New Jersey 07960

Attention: Joan Hamilton

Dear Congressman Frelinghuysen:

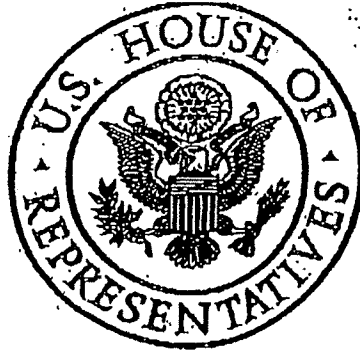
In response to your recent inquiry with respect to Mr. ^{B6} _____ owner of ^{D6} _____ regarding Freddie Mac's seller/servicer risk management practices, I am providing the following information. As you know, OFHEO is the safety and soundness regulator of two government sponsored enterprises, Freddie Mac and Fannie Mae.

We have reviewed the documentation ^{B6} provided by your staff and have conducted our own review. As you know, Mr. _____ case was litigated in federal court and the court ruled in favor Freddie Mac. As the safety and soundness regulator of this Enterprise, we reviewed the case to gain an understanding of what transpired, to determine if it was consistent with what we understand Freddie Mac's counterparty risk management practices to be, and to determine if management's actions were prudent, reasonable, and fair. Based upon on our review, we determined that the Enterprise's actions were safe and sound and that we had no further concerns with Freddie Mac's management of the situation.

I trust this is responsive to your inquiry.

Sincerely,

Joanne E. Hanley
Associate Director for Congressional Affairs



FROM THE DISTRICT OFFICE OF:
CONGRESSMAN RODNEY P. FRELINGHUYSEN
NEW JERSEY'S 11TH CONGRESSIONAL DISTRICT
30 SCHUYLER PLACE
MORRISTOWN, NEW JERSEY 07960
PHONE: (973) 984-0711
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TO: Amy Lakrouse

DATE: 3/16/05

PAGES TO FOLLOW: 24

FAX NUMBER: 802 417-3823

From: John Hamilton

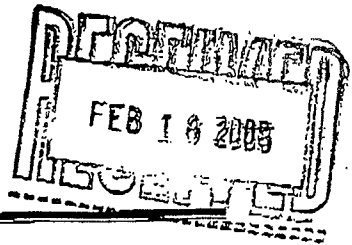
MESSAGE:

My computer is down, so I apologize for not having a cover letter.

Please read and advise. I am hoping you may be able to help Mr. Howard.

Thanks.

John Hamilton



February 13, 2005

Congressman Rodney Frelinghuysen
30 Schuyler Place, Second Floor
Morristown, NJ 07960

Re: Freddie Mac

Dear Senator Corzine:

I am writing to you to request your assistance in a very simple task. That is to demand that senior management at Freddie Mac exercise basic common courtesy and respond appropriately to the factual issues raised in my enclosed letter.

On November 1, 2004, more than three months ago, I wrote the enclosed letter to Mr. Richard Syron, CEO of Freddie Mac. In it I detail a multitude of deceptive acts and practices which have not only done irreparable harm to my family and myself, but also to the American taxpayer and Freddie Mac's own business partners. My facts are documented and come from my personal experience in working closely with Freddie Mac for almost ten years. I strongly encourage you to read it. You will be astounded at how recklessly Freddie Mac destroys anything in its way, whether accidentally or intentionally, without blinking an eye or looking back to survey the damage.

As of this date, I have still not received a response from Mr. Syron. It appears that facing the truth and taking the appropriate corrective measures is still beyond Freddie Mac's ability despite a complete change of management (which I suspect is more for political and Wall Street value than an actual change in ethics). My family and I would be most appreciative if you would contact Mr. Syron on our behalf. An expression of interest on your part might actually encourage Freddie Mac to do something right for once that is not in its own self interest. I am certain that once you read my letter you will have a number of questions of your own requiring a response.

When the "FM Watch" group was gaining strength a few years back, Freddie Mac allegedly threatened to terminate the contracts of some of the larger institutional members causing them either to resign or go underground. I hope you will agree that Freddie Mac should not be allowed to continue to bully the world. Ignoring the facts and issues in my letter is just such an attempt. Please contact me if you have any questions at all.

Thank you in advance for your support.

Sincerely,

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B6

November 1, 2004

Mr. Richard Syron
Chairman and CEO
Freddie Mac
8200 Jones Branch Drive
McLean, Va. 22102

Re: Deceptive Acts and Practices

Dear Mr. Syron:

Congratulations on your relatively new position at Freddie Mac. I wish you much success. As a seasoned money center banker who has worked closely with Freddie Mac for almost ten years I can tell you honestly that you have inherited an organization with a culture rich in arrogance and extremely proficient in theft and deception, only some of which has been made public. I am about to tell you an incredible story and I hope you will extend the courtesy of reading it through. In it, I will also point out how Freddie Mac has created a license to steal and how it has used it effectively. I note from your resume that you have had a distinguished and successful career. Perhaps you can then partially identify and imagine if you will, the following:

- you grew up in the streets of the south Bronx;
- at the age of fourteen you leave home;
- you work your way through high school with multiple jobs;
- at age eighteen you marry your high school sweetheart;
- at age nineteen you have a daughter;
- you join Citibank and while working full time during the day, you attend college and graduate school full-time at night earning a BSBA and an MBA in quantitative analysis from NYU;
- you work your way from a teller/trainee position to ultimately become Citibank's Senior Credit Officer and Director of Consumer Credit Policy;
- you have created and managed a number of subsidiaries of Citibank and yours is a household name among money center bankers;
- you represent Citibank on multiple boards of directors, industry groups, and trade associations;
- you are well known and highly respected by federal and state regulators;
- when your daughter begins full time school, your wife continues her own education and obtains a magna cum laude undergraduate degree and an MBA from Columbia Business School;

your wife also joins Citibank in a trainee capacity and within ten years is a senior officer managing the bank's limited partnership financing department;
 at the peak of your twenty and ten year careers respectively you decide to leave Citibank and start a family business, a mortgage banking company;
 a year later, you recruit your daughter who just graduated from Mount Holyoke College;
 during the next ten years, you build a business second to none in terms of reputation, loan quality and customer satisfaction;
 your company is licensed and has offices in three states;
 state banking regulators invite your firm to join the American Association of Residential Mortgage Regulators as the only non-regulator founding member;
 you chair a committee teaching regulators what to look for when examining a mortgage company
 the Governor of your state appoints your firm to the Lender's Advisory Board of the Department of Banking and Insurance;
 you purchase a landmark building in your town, perform a "gut-rehab," move in your thirty-six employees and are honored with the town's Economic Development Award;
 your company is a top tier Freddie Mac seller/servicer, recruited by Freddie Mac to assist it in the seizure and management of a loan portfolio which proved to be the largest case of fraud in Freddie Mac's history;
 you testify on Freddie Mac's behalf;
 your daughter serves on Freddie Mac's Midanet Advisory Committee;
 you build an organization to support Freddie Mac;
 your bank offers to buy your company for five million dollars but you decline -- yours is a family business intended to pass from generation to generation;
 you often take no salary, opting instead to reinvest the earnings in the company to support its growth;
 you become pillars of your community -- you are the treasurer of the Kiwanis Club, a trustee of your church, chairman of its finance council;
 your wife is a director of the Lyons Club, a cantor at church;
 you are both Eucharistic Ministers;
 no longer in the south Bronx, you live in a nice house and drive European cars;
 after thirty years of hard work, life is good;

until;

one day a team of three Freddie Mac junior auditors visit your company purportedly to perform a custodial account audit;
 at the end of the three day audit the team leader announces that one of your custodial accounts is short approximately \$135,000 and demands immediate funding;
 your bookkeeper assures you that there is no shortage;
 your books are reviewed quarterly and audited annually by your independent accountants;

you ask the auditor to provide proof of his findings and he defiantly tells you it is not his job to reconcile your accounts;
the next day, the auditor reappears with a termination letter and an army of people gathered to seize your loan files and confiscate your biggest asset, your servicing portfolio, without compensation;
Freddie Mac subsequently sells your servicing portfolio earning over one million dollars and keeps the proceeds;
the auditors visit your bank, instruct it to wire your Freddie Mac related custodial funds to Freddie Mac;
the bank asks why and one of the auditors says "custodial account fraud;"
you are one of the bank's largest depositors and serve on its advisory board, yet the bank defaults you on all your obligations and seizes all your corporate and personal funds;
you were unaware of the fraud allegation;
your warehouse banks terminate your lines . . . after all, if Freddie Mac terminated you, and your bank defaulted you, you must have done something very wrong;
your integrity is questioned . . . how could this happen since you seemed so close to Freddie Mac;
within two weeks, your staff of 36 shrinks to 6;
within two months you are out of business;
your ten-year old family company has melted down faster than an ice cream cone in the summer sun;
stripped of your servicing assets, years of equity investment have evaporated;
you are unemployed and penniless;
your reputations are permanently damaged. . . you become pariahs;
you personally guaranteed your bank lines so your bank sues you seeking your house, your possessions and even your wedding ring;
although you were a drafter of the current federal bankruptcy code and a leader in the fight against bankruptcy abuse, you now are forced to file a personal chapter 11 to protect what few assets you have left;
your landmark office building with over a half million dollars in equity also seeks chapter 11 protection and eventually is abandoned in a chapter 7;
your thirty year unblemished credit history is destroyed and you now pay sub-prime rates on your first and second mortgages;
eight years later after refinancing your home to the limit numerous times to pay bills you are still not gainfully employed;
your multi-million dollar life insurance policies have lapsed for non-payment;
you are fifty-seven years old and have no real pension or retirement plan;
you drive a thirteen year old car;
you have high blood pressure and no health insurance;
you and your wife have seriously contemplated suicide;

yet;

hours after Freddie Mac terminated your company for the alleged shortage, it reconciles the funds received from your bank and realizes that **there never was a shortage**;
Freddie Mac closes its windows and doors and raises its barricades posturing for litigation;
you call friends at Freddie Mac you have known and worked with for years; most don't return your call and one that does says "I'm sorry, I am not allowed to talk with you, but you are in my prayers."

What follows is a factual account of how all this happened. It is a story of arrogance, incompetence, deceptive acts and practices, theft, perjury, and the willful destruction of innocent people's lives. Every detail is independently verifiable. Most are fully documented. It is by both its nature and our ten year relationship necessarily lengthy. I am confident you will find it educational and hope you will provide the courtesy of a response.

Early History

In 1986, my wife ^{B6} and I decided to leave our executive positions at Citibank and start a family business - a mortgage banking company. The company was called ^{B6} an acronym for ^{B6} Our daughter, ^{B6} who was attending Mount Holyoke College at the time, would ultimately join the firm a year later and was the only heir. ^{B6} ^{B6}

The growth of the company was carefully controlled. Our longstanding reputations as competent risk manager, preceded us and the quality of our loan originations, underwriting, and servicing was exceptional, facts which did not go unnoticed by Freddie Mac. In 1987, at Freddie Mac's urging, ^{B6} became an approved Freddie Mac seller and servicer for both single and multi-family loans. Our account executive, ^{B6} remained with us for almost ten years despite numerous internal reorganizations and responsibility changes. ^{B6}

Our first experience with Freddie Mac's reckless disregard for the effects of its actions on others involved the multi-family business. At that time, such loans were underwritten directly by Freddie Mac. Thus, when you submitted a loan application, Freddie Mac had to underwrite it before you could close it. Freddie Mac's service was horrific but you learned to deal with it. In 1989, the service reached new levels of disintegration when loan files which usually took one to two months to underwrite now took four to five. ^{B6} had a pipeline of several million dollars of loans that were submitted to Freddie Mac that summer and needed to close by year-end in order to qualify for low income housing tax credits. By November, no one at Freddie Mac would even return a call regarding the status of the loans. Finally, I believe in early December, we received a Freddie Mac bulletin indicating that due to its losses in the multi-family business, Freddie Mac was exiting the business immediately! What about loans already submitted to Freddie Mac and were in pipeline for several months? Too bad! No doubt the big

players were taken care of.

lost lots of money, and more importantly, our reputation took a big hit in the eyes of the tax attorneys who were providing this business. (Had I still been with Citibank under such circumstances, Freddie Mac would not have walked away so easily.) We would have terminated our relationship completely with Freddie Mac at that time, but ^{B6} convinced us to stay. Who would ever imagine that a government sponsored enterprise dependent upon its sellers/servicers would treat them so cavalierly.

Less than a year later, ^{B6} family debacle, asked if

^{B6} perhaps in an attempt to make up for the multi- would be willing to act as an "interim servicer" for "failed institutions." As he described it, Freddie Mac had a small "elite" group of servicers who serviced loans for Freddie Mac's "own portfolios." Freddie Mac had its own servicing portfolios. This merits an important side discussion that sheds considerable light on Freddie Mac's deceptive practices and unjustifiable self enrichment.

A License to Steal

Most sellers (at least everyone I have ever known) who sell loans to Freddie Mac "servicing retained" believe that they actually retain something, specifically the servicing spread, as well as their right to service the loan and retain customer contact. When Freddie Mac purchases a loan, it purchases it at a "net yield" rate (something less than the full note rate or "gross yield"). The seller retains the difference between the net yield and the note rate, commonly called a "servicing spread" as well as the right to service the loan. For example, if a loan has a note rate (gross yield) of 7% and Freddie Mac purchases that loan at par with a "net yield" of 6% that means it purchases and pays the seller 100% of the principal amount of the loan with a return or pass-through to Freddie Mac of 6%. The seller retains the 1% difference and collects that difference over the life of the loan through its servicing of the loan. Freddie Mac will also pay a premium, i.e. above par or more than 100% of the loan amount if the seller retains a smaller spread and therefore sells a greater net yield to Freddie Mac. In the above example, if the seller only retained 0.5% and sold a net yield of 6.5%, Freddie Mac would pay more than 100% of the loan amount for that loan, perhaps 101% or 102%. The premium paid by Freddie Mac is directly correlated to the net yield it purchased. The greater the net yield, the more it pays. Thus, two loans having the exact same loan amounts and note rates may have very different sale prices depending on how much of the note rate the seller wants to give up or, in the alternative, how much he wants to retain.

The retained spread is an annuity and is considered by the accounting profession to be a tangible asset which must be capitalized on the seller/servicer's books. These assets have considerable value and are frequently bought and sold. Their value is directly correlated to the percentage of spread retained.

Freddie Mac specifically purchases the "net yield" because it does not service loans and knows that someone must do so and be "compensated" for their costs. It is expected that the seller retain enough spread to cover that cost and in fact Freddie Mac sets minimum retention limits if a seller wants to service for Freddie Mac. If the seller elects to retain

the servicing spread he must enter into a servicing contract with Freddie Mac to perform the servicing according to Freddie Mac's guidelines.

When a loan has been sold to Freddie Mac and servicing is retained, Freddie Mac does not pay the servicer to service the loan. The servicer's only compensation is what it retained and if it does not collect that retained spread if, for example, a borrower fails to make a payment, too bad. Freddie Mac does not "compensate" the servicer by writing a check to the servicer to cover its servicing costs. Sellers who elect to retain servicing usually try to insure its profitability by retaining more than the expected cost of servicing the loan. Otherwise, why service? That is why the seller, not Freddie Mac, determines the amount of the retained spread. Furthermore, as noted above, the seller decides how much of his spread he wants to sell for a premium and how much he wants to keep and carry on his books to cover his costs of servicing.

But, what if the seller does not want to service the loan for Freddie Mac? In that case, the seller may still sell the net yield (6% in our example) to Freddie Mac at par for 100% of the principal amount of the loan and separately sell the entire retained spread (1%) along with its right to service the loan to a third party who must then contract with Freddie Mac to service the loan. The seller thereby obtains much more than 100% of the loan amount (100% from Freddie Mac and an additional premium representing the present value of the entire 1% retained spread from a third party). Such a transaction is often called a "servicing released" sale and will always net a greater cash price to the seller than a "servicing retained" sale. **Since the seller can sell its retained spread to a third party while simultaneously selling the loan to Freddie Mac, it is clear that when Freddie Mac purchases that loan, it neither purchases nor otherwise owns the servicing spread.** It may pay a premium to obtain a greater portion of that retained spread as part of its purchase price of the loan, but it does not purchase the entire spread.

The recognition of the seller's ownership of the retained spread is confirmed in Freddie Mac's seller/servicer termination policy. Freddie Mac can terminate a seller/servicer any time it wants. Upon termination, Freddie Mac requires the seller/servicer to sell his retained spreads and servicing rights (collectively, the servicing portfolio) to a third party. Of course, he keeps the proceeds. If the seller/servicer cannot find a buyer for his servicing portfolio Freddie Mac will purchase the servicing portfolio itself and pay the seller/servicer fair market value which **clearly recognizes the seller/servicer's ownership**. This equitable termination process applies when a seller/servicer is terminated "without cause." Certainly no one would deny Freddie Mac's right to terminate a contract any time it wants as long as it acts in good faith and allows the servicer to either sell his retained spread or be paid fairly for it.

Unfortunately, Freddie Mac does neither. According to ^{o b l} Manager of "Failed Institutions," Freddie Mac has **never** allowed anyone to sell their retained spread or purchased anyone's servicing portfolio upon contract termination. That is because it has never terminated any servicing contract "without cause." Instead, Freddie Mac only terminates "for cause." Why? Because in a "for cause" termination, the seller/servicer actually "**forfeits**" the value of the retained spread (servicing asset). Thus, Freddie Mac

can terminate a seller/servicer, confiscate its servicing portfolio, sell it and keep all the proceeds for itself, even though it never paid a dime for the retained spread when it purchased the loan. It does not matter whether the portfolio is worth one thousand dollars or ten million dollars. Its self proclaimed authority to confiscate and keep the seller/servicer's retained spread remains the same and the loss sustained by the terminated seller/servicer need bear no relation to the "cause" for termination.

The potential damage to a seller/servicer's ability to survive a "for cause" termination is enormous. Stripped of their servicing assets most go out of business. There is a perception in the industry that anyone terminated "for cause" has done something seriously wrong. Consequently, one would hope that a "for cause" termination is properly justified on grounds that are in fact very serious. Unfortunately, that is also not the case. According to Freddie Mac's Guide (section 5.2), "for cause" is anything Freddie Mac says it is, material or immaterial. All Freddie Mac has to do is say that it "deems it appropriate to protect its interests." Exactly what is appropriate to protect its interests? Is a \$50,000 loss sufficient cause to confiscate without compensation a multimillion dollar servicing portfolio? Shouldn't the punishment fit the crime? Is a one dollar shortage in a custodial account sufficient reason to terminate "for cause" which would result in the confiscation without compensation of a potentially multimillion dollar servicing portfolio?

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Astoundingly, Freddie Mac's answer is yes. According to Director of Institutional Eligibility, "a shortage of one dollar in a Freddie Mac custodial account is sufficient grounds for termination for cause." A better license to steal was probably never invented, and here is how Freddie Mac used it successfully at the expense of the American taxpayer while suffering no losses at all, not even one dollar.

Among its documented grounds for termination "for cause" is insolvency. When the RTC was created and large thrifts became instantly insolvent by little more than the stroke of a government pen, Freddie Mac, which was then the Federal Home Loan Mortgage Corporation, invoked its "for cause" termination rights to prevent the RTC from acquiring and selling the servicing assets of these thrifts to reduce the burden on taxpayers. Instead, according to Vice President of Servicing, Freddie Mac seized these portfolios, transferred them on an interim basis under the guise of protecting its investors, and subsequently sold them to other seller/servicers. What happened to the proceeds from the sales? Freddie Mac, one.... taxpayers, zero. In fact, Freddie Mac created an entire department specifically to handle such windfall opportunities. It is called "failed institutions" and it calls the stolen portfolios "acquired portfolios." Ask yourself how Freddie Mac "acquires" portfolios since it admittedly never pays for them? By what divine right is Freddie Mac allowed to earn windfall profits simply by transferring servicing from one servicer to another? Its interests would certainly be protected by a simple transfer instead of confiscation and sale, though its pocketbook would not be enhanced. It is obviously better to sell something that doesn't belong to you and make a lot of money! Your boss will love it.

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"For cause" terminations and specifically the confiscation of retained assets have been challenged in the federal courts. But in its defense, Freddie Mac tells the courts things it does not tell its seller/servicers in its contract or in its Seller/Service Guide (for obvious reasons). Specifically, it is Freddie Mac's official court position that when it purchases a loan, it purchases the loan in its entirety including the retained servicing spread (even though its contract clearly states net yield, not gross yield, and Freddie Mac clearly does not pay for the retained servicing spread). Thus, Freddie Mac tells the courts that a seller who sells a loan "servicing retained" actually retains nothing. In the earlier example this means that when Freddie Mac purchases and pays a seller 100% of the principal amount of a loan having a 7% note rate with a 6% net yield to Freddie Mac, it tells the court it owns 100% of the 7% note rate (despite the fact that it only paid for a 6% net yield and would have paid a substantial premium for anything greater than a 6% net yield)! It would certainly appear that Freddie Mac is lying to someone. It further tells the courts that a seller's only rights accrue not from the sale of a loan with a retained spread but from entering into a servicing contract with Freddie Mac wherein Freddie Mac will "compensate" the servicer (let him keep the retained spread) only as long as the servicer services for Freddie Mac. Once a servicer no longer services, as in a contract termination, he is no longer entitled to anything since the retained spread and the servicing belongs to Freddie Mac. In this way, Freddie Mac can sell the servicing and keep the proceeds even though it never paid for it. Absolutely brilliant! I am sure that if Freddie Mac honestly disclosed this position to the real world, the accounting profession might view this "retained asset" very differently and Freddie Mac's number of sellers would diminish considerably.

It begs several questions. Why should an asset (the retained spread) allegedly belonging to Freddie Mac be on anyone else's books? Where is it on Freddie Mac's books? What did Freddie Mac pay for that retained spread when it purchased the loan? How does that compare with what a seller would have obtained had he simultaneously sold that spread to a third party? Why would Freddie Mac state in its Guide that it would pay a seller/servicer the value of his retained spread upon a termination "without cause" effectively giving him something that Freddie Mac claims to own? Perhaps that statement is just there to give the seller/servicer a false sense of comfort since Freddie Mac secretly knows it never terminates "without cause." Yet, despite some of these questions, the federal courts have upheld Freddie Mac's position. It appears that justice is not only blind, it is sometimes stupid as well.

The Liberty Debacle

Of course, to be fair, not all Freddie Mac terminations result in windfalls. There were also among Freddie Mac's seller/servicers some very dishonest people.

In late 1990, Freddie Mac's fledgling "fraud unit" suspected that a company called Liberty Mortgage Bankers, Ltd. was engaging in foul play. It would later prove to be one of the largest fraud cases in Freddie Mac's history. . . a \$230 million portfolio badly infested with fraudulent loan activity. . . aware that as Chief of Staff to Citicorp's Secretary, I was responsible for managing the bank's fraud prevention unit and

perhaps also seeing an opportunity to repair past damage, asked if ^{B6} would be willing to assist Freddie Mac in the seizure and subsequent servicing of the Liberty portfolio.

^{B6} and I met with Freddie Mac's ^{B6} Vice President of Servicing, and head of Freddie Mac's four person fraud unit, who shared with us Freddie Mac's suspicions. We agreed to assist. Freddie Mac's servicing policies required servicers to advance delinquent interest, i.e. pay the "net yield" interest due under the note even when the borrower does not make a payment. Since delinquent "net yield" interest, especially on a large fraudulent portfolio could be in the millions of dollars, and ^{B6} as a small and young company was in no position to make such advances, I negotiated an alternate method of servicing wherein interest would only be remitted if collected. Although Freddie Mac's primary accounting system could only process what was called "net yield accounting" i.e. an accounting system in which Freddie Mac expected delinquent interest to be advanced, Mr. ^{B6} advised us that a more simple method commonly called loan level accounting was available which did not automatically calculate and therefore expect delinquent interest. Simply stated, interest was only expected if the customer made a payment. Freddie Mac called it the "alternate method" of accounting. The rest of the industry called it "loan level accounting." ^{B6} and Freddie Mac entered into a servicing contract on that basis.

^{B6} Mr. ^{B6} recognized that a servicing a portfolio of fraudulent loans would be much more labor intensive than a performing portfolio but assured us that it would be well worth our effort. Certainly, there were also good loans in the mix and ultimately we would be able to keep that seized servicing asset (which Freddie Mac would normally sell). Mr. ^{B6} informed us that portfolios containing fraudulent loans and high delinquency rates (unlike performing portfolios) have no resale value to Freddie Mac since subsequent servicers were required by Freddie Mac to assume the originator's representations and warranties. No one would buy them under such conditions. They were therefore not worth anything to Freddie Mac. Mr. ^{B6} offer was therefore simple . . . clean up this mess and keep the portfolio. (Unfortunately, none of this dialogue was reduced to writing. ^{B6})

By prior arrangement, ^{B6} and I were to assist the Freddie Mac personnel in a surprise visit to Liberty and help confiscate and transfer several thousand loan files. On the appointed day, we met at Liberty's offices and were shocked to find only two people ^{B6} from Freddie Mac, ^{B6} and a trainee, ^{B6} who ^{B6} had only been with Freddie Mac for less than one week! I was expecting at least ten competent auditors. Not surprisingly, the seizure was a disaster and frankly embarrassing. Despite Herculean efforts, hundreds of loan files managed to vanish overnight and custodial account reconciliations were impossible due to multiple sets of books and records. We never got an accurate loan count, starting loan balances or trust account balances. We learned that funds were withheld from loan closings in order to make payments for six months to make a fraudulent loan look current. These funds were never turned over. The "seizure" was a classic textbook example of what not to do when seizing a suspected fraudulent portfolio, especially a very large one. By the way, ^{B6}

B6
 was the manager of underwriting, not an auditor. We were not there to review loan quality. Unfortunately, in this fiasco in which no two accounting records were the same, a seed was sown which would later have devastating consequences.

Complicating matters further was the fact that Freddie Mac expected ^{to put the} more than two thousand loans on its books and begin reporting and remitting in less than thirty days so as not to miss a payment cycle. Of course, Liberty provided none of its financial records and when forced to by Freddie Mac, provided false ones.

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 brought in the required accounting and servicing talent, put the loans on its books, and was ready to report activity within the required time period. Our first monthly reconciliation was submitted electronically as required and the system immediately crashed. Upon investigation we jointly learned that the "alternate method" was a manual reporting method which Freddie Mac was incapable of processing on line. Freddie Mac's accounting department could not process over 2000 payments manually each month. This was as much of a surprise to as it was to The solution? A dual reporting burden on reporting incorrectly under the "net yield" method because it was automated (and which calculated and sought delinquent interest), and reporting correctly manually by submitting a paper trail of actual loan activity for Freddie Mac to process at some point in time. Eventually this process would include the provision by of magnetic tapes for Freddie Mac's main frame computers. What, if anything, Freddie Mac ever did with this information remains forever a mystery.

B6
 Freddie Mac's system for reconciliation under "net yield" accounting was good. It compared what it expected (delinquent interest) with what it received and produced a cash statement which was provided to the servicer. If Freddie Mac did not receive what it expected it assessed penalty interest. Thus received monthly interest penalty assessments which were appropriately "waived" since we all knew the "net yield accounting" data was incorrect. This meaningless reporting process went on for years. In the meantime, Freddie Mac attempted to reconcile our agreed upon "alternate method" reporting with its complex "net yield" reporting. Several clerks were assigned the process most notably who actually posted our payments and loan histories on his home computer using a "Lotus" program.

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 The accounting process on end was actually quite simple. Report what we collect and remit what we report. It kept the bookkeeping simple and our books easily balanced. These books were also reviewed quarterly by our independent accountants and completely audited by them annually. Freddie Mac's process by comparison was beyond cumbersome. Loans were aggregated into groups by rate and if a loan in a group went into foreclosure all sorts of adjustments, i.e. tugs, became manually necessary. How Freddie Mac ever accounted for delinquent interest that it "expected" but was not paid also remains a mystery. Perhaps one of your staff can try to explain it. Perhaps not.

About once a year, Freddie Mac would attempt to reconcile its books with ours. Well, not exactly. Freddie Mac would produce what it insisted was accurate (after all, it is Freddie Mac) and if it did not compare with ours, the burden of proof was upon B6

- B6

Remember, [redacted] had the simple system. We could never figure out Freddie Mac's internal system and learned pieces of it only by pointing out those errors we found and asking for an explanation. The annual reconciliations produced widely varied results. Most of the time, Freddie Mac insisted [redacted] owed it delinquent interest. At one time, Freddie Mac insisted that [redacted] overpaid \$3 million and actually credited it to our account. As usual, it took a while to convince them they were wrong. Eventually, the funds were taken back. The task became so burdensome that Freddie Mac asked our daughter [redacted] to serve on its "Midnet Advisory Committee" which eventually developed an automated loan level reporting system. B6

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Complicating matters further was the fact that this portfolio contained substantial fraud. [redacted] uncovered loans on fictitious properties, "straw buyers," payments made by third parties, and a host of other fraudulent activity involving almost 20% of the loan portfolio. [redacted] became Freddie Mac's New Jersey fraud detection operation. Freddie's fraud people and litigation attorneys almost lived with us. I even wrote memoranda recommending more professional seizure procedures for the future. Liberty sued Freddie Mac and we became Freddie's key witnesses. In fact, Freddie Mac's counsel named [redacted] the "smoking gun" for the damage to Liberty she inflicted at one of the trials. B6

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The unexpected extent of the fraudulent loans also created a financial hardship for [redacted]. Although thankfully we had the foresight to avoid advancing delinquent interest in our contract, we were still bound by the remaining Freddie Mac servicing obligations. Notably, was the advancement of foreclosure expenses. [redacted] had arranged a line of credit of half a million dollars with a local bank to cover these expenses. Freddie Mac, of course, was responsible for these expenses but was extremely slow in processing the reimbursements to the point where all \$500,000 was outstanding and our bank was demanding an annual clean-up which we could not do without receiving reimbursement. The bank terminated our line. . . our thanks for helping Freddie Mac. It was only through an appeal to Freddie Mac EVP [redacted] that we got our money back promptly. It was becoming clear that the accounting reconciliation nightmare was having extended consequences by causing other departments to either delay or refuse our reimbursement requests. B6

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The enormous number of delinquent fraud related loans created other financial stresses. Taxes and insurance still had to be paid to protect Freddie Mac. To avoid having Freddie Mac advance its own funds, [redacted] used all the available funds in the escrow account before requesting any reimbursement from Freddie Mac. On occasion, when more money was needed than was available in the account, Freddie Mac instructed us to use funds from the P&I account. When the P&I account needed funds, we were instructed to use the T&I account. These practices I note were forbidden by the Freddie Mac Guide. Ultimately, Freddie Mac began properly advancing and/or reimbursing funds to [redacted] to insure that payments would be made. And, when we had still not had an accurate reconciliation between us Freddie Mac stopped reimbursing and began paying the bills directly. B6

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The "alternate method" of accounting and dual reporting had become an ugly monster for us both. There was a light at the end of the tunnel. Freddie Mac had been working on converting its antiquated "net yield" accounting system to the more common "loan level" accounting system (our "alternate method", but this time automated). This would solve all our problems, or so we thought. The conversion on Freddie Mac's end also required a conversion of our (and everyone else's) loan servicing system in order to properly interface. That conversion would include the overwriting of several key fields including net yield, servicing spread, etc. It made no difference going forward as both books were now in sync. But was it accurate going backwards? The question never occurred to us at that time.

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The Liberty litigation lasted several years. During that time, we were "joined at the hip" to Freddie Mac. (also serviced two other "failed institution" portfolios as well as its own originated portfolio and a purchased portfolio.) The accounting issues were the accounting issues (only Liberty related) and I believed that each side was trying to do its best under difficult circumstances. However, once the Liberty trial ended in mistrial, and was no longer needed to defend Freddie Mac, a noticeable shift in the relationship took place. The next annual reconciliation was accompanied by a letter "demanding" that remit I believe \$500,000 by a certain time and date. What was this all about? Shortly thereafter, we received another letter from someone else we had never heard of informing us that Freddie Mac intended take the Liberty portfolio, sell the servicing on the performing loans (many of which got there through our efforts) and have someone else (a large institution) service all the delinquent loans. I informed them of promise, but he was no longer with Freddie Mac and we had nothing in writing. Too bad again. We had literally built an organization to support Freddie Mac whose change in cast now decided that we were no longer necessary.

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I demanded a meeting with someone senior at Freddie Mac as it now appeared that the inmates were taking over the asylum. It seemed had somehow become Liberty. We were the good guys! At the meeting it was decided that the only way to finally resolve the accounting issue was to do a joint reconciliation reconstructing the entire history from day one. It would be easier now that loan level reporting has replaced the old "net yield" accounting system. The plan which would take several months was that would provide monthly historical data, Freddie Mac would process it and we would review and edit results as appropriate. Freddie Mac put an army against it and we had our bookkeeper and

At the end of the day the joint reconciliation resulted in a suspected delinquent interest shortage of approximately \$1.1 million, an impossible conclusion given that our audited books had always been in proof and, more importantly, we had no excess funds! Freddie Mac was now becoming adamant and self-righteous and we were also out of options. Our servicing software provider suggested that the mandatory conversion from "net yield" to loan level accounting may have altered our history files by aligning them with Freddie Mac's through its on-line interface. In short, we may have been using Freddie Mac's numbers to prove Freddie Mac's numbers. We also only reconciled the P&I account. The T&I account had long since been empty. It never occurred to us what

effect, if any, had the cross transfers which Freddie Mac had required made on our balances. Were we still due any funds from Freddie Mac? We thought not at the time.

Since ^{B6} [redacted] did not have a million extra dollars sitting in its accounts and I could not argue with a reconciliation allegedly based on our own numbers, I met with Freddie Mac Vice President [redacted]. He appeared sympathetic and frustrated, obviously

aware and thankful of our efforts on behalf of Freddie Mac, and suggested a compromise.

^{B6} He proposed a "settlement agreement" wherein [redacted] would agree to pay Freddie Mac \$800,000 over a period of five years. However, the first year would require principal payments only of \$10,000 per month. In his words, this would give [redacted] one final ^{B6}

opportunity to find and correct what we still believed was an error with our limited staff. He made it very clear that he wanted this reconciliation process to end once and for all as far as Freddie Mac was concerned. And, by the way, the Liberty portfolio was being transferred. What would happen if we refused to sign the settlement agreement was obvious though never discussed.

It was truly outrageous to be thus boxed in by a situation created purely from Freddie Mac's own accounting inability and failure to perform under its contract. Yet, against my better judgment, I did not seek legal counsel in this matter. My long standing relationship with Freddie Mac was too important . . . over 50% of ^{B6} current income was Freddie Mac servicing related from our own portfolio. I did not want to raise the stakes by bringing in a lawyer, especially since we did nothing wrong. I have seen the power of Freddie Mac. On the belief that given time we would still find the cause for our differences as we have so often in the past, ^{B6} and I executed the Settlement Agreement personally (rather than burden the company with unnecessary debt). It was then that the serious foul play at Freddie Mac really began, because included in the agreement was an insulting acceleration clause that if ^{B6} was ever terminated by Freddie Mac the "debt" would increase to over \$2 million representing Freddie Mac's reconciliation costs and penalty interest, not to mention the confiscation of our own servicing portfolio.

Many years later we would learn from internal Freddie Mac documents that there indeed never was a shortage requiring a Settlement Agreement. Freddie Mac willfully and secretly withheld over one million dollars in funds due ^{B6} thereby causing the accounting shortage. The alleged logic was that these funds represented negative escrows, yet one of the reasons we had negative escrows was because we used P&I funds (at Freddie Mac's direction) to make the tax and/or insurance payments on Freddie Mac's behalf! The department that was responsible for the reimbursement and made the decision to withhold it (Failed Institutions) apparently never informed the accounting group. Or maybe it did.

Despite this incredible post-mortem finding, the undeniable fact was always this: had Freddie Mac performed its contractual obligations by processing properly under its "alternate method," and produced an accurate monthly cash statement, our books would have been in sync the very first day, any subsequent errors or differences would have been easily identified and the entire Liberty accounting fiasco and

resultant unnecessary settlement would never have occurred, not to mention the \$100,000 in payments we made under the settlement agreement!

Vendetta

Liberty and our other "failed institution" portfolios were transferred right after the execution of the settlement agreement, leaving only own portfolio of approximately \$70 million. I obtained a million dollar credit facility from our lead bank and began to redirect focus back to loan originations again, having spent the last four years focusing almost exclusively on Freddie Mac special servicing.

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Unknown to at that time was the fact that the individual manager who was responsible for the Liberty joint reconciliation, was also the individual responsible for the accounting of the Liberty portfolio since the initial seizure and transfer to It was her staff who performed the monthly manual reconciliations and no doubt her embarrassment at the complete loss of internal accounting control on this portfolio due in great part to the absence of any automated processing capability. This subsequently explained the adversarial nature of the joint reconciliation. Also unknown to was the fact that following the Liberty debacle, was assigned the task of assembling a small clerical team to perform custodial account reconciliations on all of Freddie Mac's seller/servicers which numbered several thousand. Guess who was among the very first to be audited?

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I should note here that own originated portfolio was impeccable as measured and documented by Freddie Mac when you strip away the failed institution and purchased servicing portfolios. In fact, was ranked by Freddie Mac in the top 10 percent of its seller/servicers. I don't want to suggest that never made mistakes or somehow walked on water. We certainly made our share of errors. But we always acted responsibly and never put our customers or loan purchasers at risk. We never had a repurchase request on our own originated portfolio, a statement few Freddie Mac seller/servicers can make.

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One of our errors worth noting actually benefited Freddie Mac and again involved delinquent interest. On our own portfolio, we were required like everyone else to advance delinquent interest until a loan was placed into foreclosure. At such time no further advances would be necessary. For a period of several months we erroneously advanced interest on loans which had been placed in foreclosure. When we caught the error (which was never brought to our attention by Freddie Mac), the amount advanced had almost reached, as I recall, \$150,000. We sent a letter to Freddie Mac identifying the problem and requested a refund. Freddie Mac acknowledged the error yet astonishingly denied the refund. We subsequently learned that the individual who denied our request for refund reported to At the recommendation of our independent accountants we solved the problem by withdrawing the funds from the Freddie Mac custodial account to which the advances were made and reconciling the books with a fully documented "due from Freddie Mac" adjustment item. This was reflected in the custodial account reconciliations requested by account review team. If funds were needed, we

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would transfer between custodial accounts just as Freddie Mac had instructed us to do in the Liberty portfolio where it also owed funds to

In retrospect, it is clear that there was some growing hostility between [redacted] and our bookkeeping department which originated during the multiple Liberty reconciliations. Unfortunately, we never realized the true extent of her animosity until one day in April of 1996.

The Termination

On that day, two of [redacted] staff accompanied by an individual whom we would later learn was a fraud investigator arrived at our office allegedly to perform an on-site custodial account audit. [redacted] knew in advance exactly what they would find and in fact, we later learned, she had sent a series of "red flag" emails throughout the institution (including people she normally would not copy on such matters) which poisoned everyone with what she already knew. . . there would be a (technical) custodial account shortage caused by our "due from Freddie Mac" adjustment. Having unfortunately (and in retrospect inappropriately) acknowledged a Liberty liability in the past in the form of a settlement agreement, I suspect it was not hard for people unfamiliar with the situation to believe that we were at it again as [redacted] specifically mentioned the settlement agreement (to which she was even not a party) in her emails! The bottom line is that three days later the team leader advised us that we were "short in our custodial account approximately \$135,000" and demanded immediate funding. We all knew there was no real shortage. I asked the auditor to provide specifics in writing and we would address it. He never did. Instead on May 1, he reappeared with his team and at least ten employees of Alliance Mortgage. He bore a letter terminating [redacted] status as a Freddie Mac seller/servicer "for cause." His mission was to remove all servicing files and transfer all custodial account funds to Freddie Mac. [redacted] me and our staff of 36 were in total shock! Some of us needed tranquilizers. This was an organization built to support Freddie Mac! We refused to believe what was happening to us. Everything was spinning out of control. Our servicing portfolio, some of which we actually purchased from others and valued in excess of \$1 million was seized without compensation. (Freddie Mac eventually sold the portfolio netting over \$1 million for itself in a combination of sale proceeds and interim income.)

While the Alliance people were packing loan files, the three auditors went to our bank, Hudson United, with whom [redacted] had substantial lines of credit, and instructed the bank to wire all custodial account balances to Freddie Mac. When the bank asked why, one of the three allegedly used the word "fraud." We did not know that but apparently that's all it took. Despite my assurances that there was no shortage in any of our accounts and Freddie Mac's action were totally inappropriate, the bank defaulted the company and [redacted] and me personally on all obligations and seized all funds in all accounts, corporate and personal (including my 83 year old mother's Christmas club on which I was a signer). This same bank had offered to purchase our company one year earlier for \$5 million.

A week later Fannie Mae "miraculously" appeared for a "routine audit" and allegedly learning then of the Freddie Mac termination and our bank's response decided we were "too risky" and terminated us as well, although they paid us for our servicing portfolio. (Fannie and Freddie as competitors pretend not to talk with each other or share information. But I know from my involvement with Freddie's fraud unit that they in fact do.)

At the time of the termination we were originating approximately \$10 million per month and our warehouse banks upon being properly advised by us of the situation also terminated our lines. My reassurances fell on deaf ears. The mumbling was that "Freddie Mac would never terminate someone without good cause, especially which had such a good relationship with it. B6

Our ten year old family business, a model for regulators, and envy of our competitors was evaporating before our eyes. Within six weeks our staff was reduced from 36 to 6. Shortly thereafter, the company closed its doors. No customer was harmed. I found banks to purchase every one of our loans in pipeline. Some of our staff blamed and me personally for the loss of their jobs as if we were somehow guilty of something. B6

Damage Control

Within a few days of the termination, seizure and transfer of custodial account funds to Freddie Mac, it became obvious to the Freddie Mac employees who performed the final reconciliation (which we did together) that there was no real shortage, a fact which knew all along. Instead of a corporate apology and attempt to minimize the damage (which of course was too late by then anyway), Freddie Mac took a defensive posture. announced in an internal email that she was going to "keep a low profile." Other people with whom we had worked closely for years were forbidden to talk to us. Hardy whose wedding we attended, said "I'm sorry but I can't talk to you, you and are in my prayers." B6

The termination letter which was handed to me said nothing about a shortage and was about as broad and intentionally non specific as possible. Several items were subsequently admitted as non applicable but were thrown in as part of the "boiler plate" termination language. If you are taking the drastic action of terminating someone, shouldn't you at least give specific reasons in writing? Obviously anticipating litigation, Freddie Mac then began the deceptive practice of trying to find reasons for termination after the termination! They came up with three, all of which proved to be wrong. It did its best to take the tiniest infraction it could find and build it into something of consequence. It had to. When Freddie Mac finally issued a "detailed" termination letter at the demand of our counsel, it produced a few puny reasons, including the three after the fact. Imagine being terminated "for cause" because one loan file did not contain a paid recent tax receipt! (The fact is, it was paid, on time, three days before the termination and the loan file was taken from before the receipt was received from the taxing authority. No one bothered to check with the tax authority before B6

asserting this "cause.") This and all the remaining "causes for termination" were subsequently ruled by a federal court as "technical and immaterial."

Unfortunately, the damage was done. Our reputations upon which our thirty year careers were built were instantly destroyed. Our bank, rather than join us in pursuing Freddie Mac, decided to sue us both . . . and lost against both (which is how I first learned of the "fraud" allegation. Unfortunately, the litigation against us coupled with the loss of our company and its assets forced us to file a Chapter 11. The loss of the company also caused us to lose our building whose mortgage was paid by the company. We lost over \$500 thousand in equity. And all for what? Because someone didn't like us, or had a vendetta and had the power of Freddie Mac to destroy us and everything we had? What Freddie Mac did to us was nothing short of an intentional, brutal assassination. Stripped of our money, our assets, our dignity, and our pride all we had left was a charge of wrongful termination against Freddie Mac.

The Trial

It took six painful years to get Freddie Mac in front of a jury. Our attorneys were clearly outgunned and bombarded with expensive time wasting motions and delay tactics clearly intended to wear us out mentally, emotionally and financially. We spent all the money we could raise, almost \$200,000 (including money borrowed from family) on attorney fees and still had a contingency retainer which ran up another \$300,000.

There was more than enough evidence to support a claim of genuine malice and intentional harm. In fact, there was evidence that the termination decision was made well before the audit even began when reviewed the custodial account reconciliations. Thus, the audit itself was just a "witch hunt" hoping to find something substantive to support the termination decision. knew she could not follow Freddie Mac's customary procedure of writing to us requesting that our reconciliation "adjustment" be corrected, because she caused it by withholding reimbursement! Some other supporting cause had to be found. B6
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The termination letter did not list a single audit "finding," suggesting it was prepared in advance. If you "found something, why not list it? The slightest "finding" during the audit caused the auditor to "call home" asking if he could "now begin the termination process." Why would anyone do that who under oath claimed to be there solely "to help the servicer?" He was instructed to go back and find more. Obviously, that is what he was sent there to do. The only grounds they could find, after reviewing far more history than they would in a normal audit, were apparently insufficient, evidenced by Freddie Mac's post termination "bottom fishing" attempt to find more grounds for termination after the termination. Alliance, Freddie Mac's seizure partner, was placed on notice of a seizure and purchased airline tickets at the beginning of the audit. The traditional opportunity to cure any finding in a normal audit was completely non-existent and obviously never intended. (Seller/servicers with real shortages and other non-compliance issues were simply sent letter identifying the findings and asking them to take corrective

action and report the results.) The auditors' work papers actually reflect no shortage when all Freddie Mac funds are taken into account which they did during the audit!

Despite the above, our attorneys decided not to pursue such a claim as they believed malice would still be too difficult to prove and opted instead to pursue a claim of negligence, wrongful contract termination and failing to act in good faith. There was certainly more than enough evidence to prove that. All we had to do was tell our story.

Freddie Mac and its counsel were masters of spin. Having virtually no valid defense for the wrongful termination and theft of funds, they took a couple of insignificant, purely technical non-compliance issues (common to many servicers by Freddie Mac's own admission and which the court itself ruled as technical and immaterial in previous motions) and spun them into grand deeds of wrongful behavior. Freddie Mac's strongest defense, if there could be one, was their defense charge that commingled funds (notwithstanding the fact that Freddie Mac actually mandated such practice in the past). "Commingled" sounds scary and really worked the jury. What we actually did was quite simple and common in banking. Specifically, because the Freddie Mac portfolio represented almost 90% of our total servicing portfolio, we authorized our tax service to debit the Freddie Mac account for quarterly taxes. Taxes for the 10% of those borrowers who were not Freddie Mac related were deposited into the Freddie Mac account to cover the debit with complete audit trails. The absence of any shortage in our custodial accounts confirms this. In fact, the T&I account had a surplus for precisely this reason. If Freddie Mac did not like this practice which created **no financial risk at all**, it could have just said "stop" which is its admitted custom.

Another immaterial "cause" for termination (and common among many servicers according to Freddie Mac's published reports) was the suggestion that negative escrow balances were actually cash shortages! A borrower has a negative escrow balance when you pay his taxes or insurance (to protect Freddie Mac) and there is insufficient money in his account. As long as there are sufficient funds in the collective escrow account there is no need to fund it from other sources. This is banking 101.

The federal judge could not possibly have been more partial had he been on Freddie Mac's direct payroll. It was pretty obvious. Everyone including the court reporter clearly noticed it and the judge's own clerk confided to us that he had never seen the judge so partial to a defendant and rude to plaintiff and particularly its counsel, sending a clear message to the jury. Much of our evidence and testimony he refused to admit, granting almost every one of Freddie Mac's objections. He refused to allow us to address the Liberty issue as part of the necessary background. He said he did not want to burden the jury to too much information. As you can see from the length of this letter, this is not a simple case and there is a long and important history of which Liberty was integral. Yet notwithstanding his direct order, he allowed Freddie Mac to begin cross examination at the end of the court day with just one question (which is absolutely unheard of among trial lawyers) which was "didn't you sign an agreement in which you owe Freddie Mac \$800,000"! Talk about jury tampering! The judge overruled our objection.

The fact that we willingly admitted noncompliance to a few technical non-financial guidelines (which by Freddie Mac's own admission were common to many seller/servicers and some of which were known to Freddie Mac long before the audit) was apparently all Freddie Mac needed. They simply argued that the Guide says what the Guide says and our admitted noncompliance with the Guide was all the justification Freddie Mac required. Materiality was unimportant. The fact that Freddie Mac clearly demonstrated in discovery that almost all Guide "violations," even very severe ones, are treated by providing written notice and ample opportunity to correct the infraction (which did not happen here at all) either were ruled inadmissible or fell on deaf ears. In fact, on one occasion, when a servicer had willfully used \$500,000 of Freddie Mac related custodial and trust funds to purchase another business, Freddie Mac allowed that servicer to sell his servicing portfolio to replace the missing funds. In another example Freddie Mac repriced a seller/servicer's portfolio well after it had been purchased in order to provide him with the additional funds necessary to replace the missing funds! We had no missing funds and no loss or financial risk whatsoever to Freddie Mac yet we were summarily executed without the slightest opportunity to cure anything.

One of our expert witnesses, a retired New Jersey Deputy Superintendent of Banks, would testify that the "non compliance" allegations upon which Freddie Mac based its defense were so immaterial and insignificant that they would not even have been written up in a state banking department audit! Needless to say, Freddie Mac convinced a willing judge to disallow his damaging testimony.

We never did get to tell our story and Freddie Mac blew enough exaggeration and smoke to make a cub scout look like a serial killer. The fact that every one of Freddie Mac's witnesses dutifully lied under oath added the necessary substance. While we argued that a termination based upon a shortage which proved non-existent, and therefore never again asserted, was at best improper, Freddie Mac argued repeatedly that it did not matter whether Freddie Mac suffered a loss or not. It was justified to terminate simply if it perceived risk. Imagine if your bank foreclosed on your mortgage and took possession of your house simply because it "perceived" it might suffer harm if you ever became delinquent! Only an offspring of government could make such a statement and get away with it.

At the end of the day, it all came down to the judge's jury charge. As he did repeatedly throughout the trial, he gave Freddie Mac exactly what it wanted, a charge that would make it extremely difficult for a jury to rule against it. Little wonder Freddie Mac was so defiant during the trial bragging to the judge that it had never lost a case in federal court.

Of course, we lost. Freddie Mac was "not guilty" and its counsel would later arrogantly state that "our claims had no merit!" Raped twice.

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The Harassment Continues

So, why am I writing to you today? I am not a "whistle blower." There are several reasons. First, because eight years after Freddie Mac cavalierly and I firmly believe intentionally destroyed our lives, stole our money, and caused our fortunes and careers to evaporate, and more than two years after the incredible and educational, eye-opening, one-sided trial, Freddie Mac's pit bulls are still at it. Last year, while refinancing our home for the fourth time to raise what equity was left to survive, we were informed at the loan closing by the title company that Freddie Mac had filed a judgment against us in the amount of approximately \$12,000 which had to be paid! Raped a third time. Apparently, Freddie Mac had filed a motion for court fees which its advocate judge readily granted without a hearing. (We were in Chapter 11 when the litigation began and according to counsel the judge should have obtained the bankruptcy court's consent.) Adding still further insult, and the final instigating factor in drafting this letter, I recently received a letter from Assistant General Counsel demanding \$20,000 "due Freddie Mac" under our Chapter 11 Bankruptcy Reorganization Plan. I advised Mr. [redacted] that these funds represent the default amount under the Liberty Settlement Agreement which, by his own client's court admission were never due Freddie Mac. Nevertheless, the harassment continues to this day and I have had enough.

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It has always been my personal belief that honorable men do honorable things and I have also come to believe from my Citicorp experience that at some level in a large organization sanity prevails. Unfortunately, at Freddie Mac, the corruption at the top seems to have sent a prevailing message throughout the organization. . . win at any cost and whatever you do, however wrong, find reasons to make your actions right. I truly hope the change in senior management will reflect a change in the corporate culture as well.

In conclusion, I am asking you to encourage Freddie Mac to do the right thing for a change. I hope you will agree that it has done more than enough damage, at least to this family. Start by calling off the dogs. An apology wouldn't be a bad idea either. You beat us in court when you knew you were wrong. Instead of filing judgments and sending us letters demanding more money, take responsibility for your actions and send us letters including checks for the million dollars that Freddie Mac stole when it seized and sold our servicing portfolio and kept the proceeds; the \$100,000 we unnecessarily paid to Freddie Mac under the settlement agreement caused by Freddie Mac which only came to light at trial; the half million dollars in equity we lost in our office building; the \$200,000 we paid in legal fees trying to get justice, etc., etc. Freddie Mac cut off our legs and threw them away. We can never get them back. How much does Freddie Mac make in one day? Ten million dollars? Did it really need to utterly destroy us for a fraction of one day's earnings? Or was it just a rogue employee out of control?

You might also consider being honest with your seller/servicers. Tell them exactly what Freddie Mac tells the courts. Tell them that Freddie Mac believes it owns the retained servicing spread and can sell it and keep the proceeds regardless of the size and value of

the servicing asset. Tell them that to do so Freddie Mac need only terminate their contract "for cause" and can do so whenever it "deems it appropriate." Tell them that materiality is not important. Tell them that a "one dollar shortage in a custodial account is sufficient grounds for termination for cause." Particularly tell this to the large banks with billion dollar servicing portfolios, who (according to Freddie Mac's internal documents) frequently fail to properly fund their Freddie Mac custodial accounts. Tell them that Freddie Mac has successfully convinced the federal courts to support Freddie Mac's position and remind them that Freddie Mac has never lost a case in federal court. Tell them that while they are required to fully understand and fully comply with every minute detail of Freddie Mac's voluminous, constantly changing, unilaterally written contract (the Guide), lest any part of it be used against them, Freddie Mac's own employees need not be familiar with it. (Every employee we deposed from vice president to clerk when asked a question about the Guide, even sections pertaining to their own department, said that he or she did not know the answer but would have to check with the Guide!) Share the internal memoranda wherein employees gloat after terminating a servicer and seizing its assets.

I think we both know that such disclosures will never happen.

If anyone in your organization has a different view or contrary opinion regarding any of the facts detailed herein or suggest anything that I have not disclosed or otherwise covered (I really could have written a book), I would truly welcome an opportunity to meet with you and them to clear the record, provided of course there are no attorneys present to contaminate what might otherwise be an honest dialogue. (Freddie Mac has a very bad habit of having attorneys attend a meeting and not disclose to the participants that they are attorneys.) Please also bear I mind that people who dutifully lie under oath to protect their jobs would probably do the same again. I am sure that one or two, particularly _____ will describe us as merely another disgruntled servicer who was justifiably and properly terminated because it made Freddie Mac nervous and is angry that its lollipop has been taken away. (There are many disgruntled servicers. Just ask state regulators.) But in their hearts Freddie Mac's staff know the truth and, if you take your job seriously as I trust you will, you will find the truth as well. As I have said at the beginning, everything I have related is independently verifiable. Most are documented. You might talk to _____

She is a religious person who may still tell the truth. And, perhaps _____ may as well if it doesn't hurt him politically. By the way, if you are looking for a deputy to help restore some integrity in the organization, I am available. Freddie Mac has not taken that away from me. I have also included some references and an article published in *Business Week* and other periodicals on our once proud company with a photo that ironically includes the Freddie Mac Seller Guide!

I would have requested a personal meeting with you to relate these events and solicit your involvement rather than write this lengthy letter, but suspected it would not be granted. You probably have much bigger issues to deal with. I suspect it is the type of matter you would delegate four or five levels down. But I wanted you to know from one CEO to another. And, on the high probability that this letter never even gets to you through your screens, I have taken the liberty to copy your Lead Director through your corporate

secretary as well. Hopefully, it will get to someone with a conscience and the authority to do something positive about it.

I look forward to hearing from you. (No attorney letters, please. Our stomachs still turn every time we receive one.)

Sincerely,

bb

cc: Lead Director

JUDY BIGGERT
13TH DISTRICT, ILLINOIS

COMMITTEES:
EDUCATION AND LABOR
FINANCIAL SERVICES
SCIENCE AND TECHNOLOGY



Congress of the United States
House of Representatives

Washington, DC 20515-1313

May 11, 2007

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Reclact 36

The Honorable Henry M. Paulson, Jr.
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Secretary Paulson:

As the Ranking Member of the House Financial Services Subcommittee on Housing and Community Opportunity and the Co-Chair of the House Financial and Economic Literacy Caucus, I write to request that you assist me in coordinating congressional and executive branch efforts to promote homeownership during National Homeownership Month, which is June 2007.

I specifically request that during the May 15, 2007, public meeting of the Financial Literacy and Education Commission, each member agency reveal its event agenda related to National Homeownership Month. Immediately following this meeting, I would appreciate receiving a copy of this information concerning events taking place in both Washington, DC, and in congressional districts across the country. It is my intention to notify Members of Congress about these events so that they may choose to participate in or attend them, and notify their constituents that the events are taking place.

If you have any questions, please feel to contact me at 225-3515.

Thank you for your attention to my request.

Sincerely,

Judy Biggert

Judy Biggert
Member of Congress

Reclact 35

United States Senate

WASHINGTON, DC 20510

Questions for the Hearing on "The OFHEO Report of the Special Examination of Fannie Mae" June 15, 2006

Specifically, explain this in more detail. How did Fannie lobbyists interfere with your investigation?

Please comment on Fannie's lobbying effort to generate the HUD Inspector General's fourth investigation of OFHEO.

Who specifically directed Fannie Mae lobbyists to do this? Who specifically was aware of this? What was the role of Mudd, Raines and Howard?

Your report states the Board was notified by a Fannie employee of the HUD Inspector General's results. What was the Board's role in all of this? Were they aware of what was going on? Why were they notified?

4. The OFHEO report states that the "Board contributed to those problems by failing to be sufficiently informed and to act independently of its chairman, Franklin Raines, and other senior executives; by failing to exercise the requisite oversight over the Enterprise's operations; and by failing to discover or ensure the correction of a wide variety of unsafe and unsound practices.

"The Board's failures continued in the wake of revelations of accounting problems and improper earnings management at Freddie Mac and other high profile firms, the initiation of OFHEO's special examination, and credible allegations of improper earnings management made by an employee of the Enterprise's Office of the Controller."

Can you give specific examples of the Board's failures? Explain also the "credible allegations of improper earnings management" made by a Fannie employee.

from Senator Crapo

Fannie Mae signed a consent agreement on May 23, 2006, with the Office of Federal Housing Enterprise Oversight agreeing to cap its retained mortgage related portfolio to \$727 billion, its level on December 31, 2005.

1) Using Fannie Mae's \$727 billion portfolio as a model, what would Fannie Mae's portfolio size be with the limits of S. 190? Please include an explanation of the assumptions that you used to arrive at this number?

B5
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B5
{ }

United States Senate

WASHINGTON, DC 20510

Questions for the Hearing on "The OFHEO Report of the Special Examination of Fannie Mae" June 15, 2006

[B5]

- 2) What are the public policy benefits and risks of the two different portfolio sizes?

from Senator Martinez

1) In your testimony today you stated that the OFHEO report details an arrogant and unethical corporate culture at Fannie Mae from 1998 to 2004. You also stated that "perhaps the best written record of this culture is a memo from the Chief Operating Officer Dan Mudd to the CEO two months after OFHEO's interim report. In that memo Mudd was discussing the need to change and wrote: "[t]he old political reality was that we always won, we took no prisoners, and we faced little organized political opposition... We used to, by virtue of our peculiarity, be able to write, or have written, rules that worked for us. We now operate in a world where we will have to be 'normal'." Given your selection of this memo as the best example of what went wrong at Fannie Mae, to what degree was Dan Mudd responsible for what happened at Fannie Mae? How should he be held accountable?

[B5]

2) How confident are you with Fannie (and Freddie's) most current financial reporting? When will each company complete their accounting restatements?

3) Fannie Mae is required to continue maintaining a 30% capital surplus, as part of its capital restoration plan. Under what conditions may you decide that this requirement should be modified or expire?

4) Fannie Mae is required to report to you whether any former officers should be terminated. What action could OFHEO take against these individuals.

5) Freddie Mac has announced that its accounting restatement will be further delayed. What is the status of Freddie Mac's compliance with its written agreement with OFHEO and the company's outlook from your standpoint?

[B5]

6) The Chairman of the Board and CEO positions, held jointly by Franklin Raines, have been separated and Chairman Stephen Ashley appears to have cast the non-executive chairman role as an independent check on the CEO. What are the benefits of those changes in structure and practices and what is your assessment of Ashley's performance?

7) The report states "the goal of senior management was straightforward: to force OFHEO to

United States Senate

WASHINGTON, DC 20510

Questions for the Hearing on "The OFHEO Report of the Special Examination of Fannie Mae" June 15, 2006

rely on the Enterprise for information and expertise to such a degree that Fannie Mae would essentially regulate itself." Would you agree that Fannie Mae sought to oversee OFHEO, instead of the other way around?

8) Were efforts to generate interagency conflict, between OFHEO and HUD, SEC, OMB, and others, made at Fannie Mae's highest levels, and if so by whom?

9) It is my understanding that the size and aggressiveness of the company's lobbying and grass roots activities have been substantially reduced. Can you give me more specifics about in-house and external activities in terms of personnel, costs, and approach?

10) Did you evaluate the role of Fannie Mae's Community Business Centers, formerly known as Partnership Offices, in community or political activities?

BS

[BS]

United States Senate

WASHINGTON, DC 20510

Questions for the Hearing on "The OFHEO Report of the Special Examination of Fannie Mae" June 15, 2006

Questions for The Honorable James Lockhart, Acting Director, Office of Federal Housing Enterprise Oversight

from Senator Hagel

1. Former Federal Reserve Chairman Greenspan and Treasury Secretary Snow testified before this Committee about the need for GSE reform and specifically warned about the systemic risks posed by the GSEs large portfolios that stand at about \$1.5 trillion.

Given the level of fraud and mismanagement outlined in the recent OFHEO report on Fannie and a previous report on Freddie, how concerned are you about the ability of the GSEs to manage these large portfolios? ([B5])

The Senate Banking Committee passed a GSE reform bill last July that gives the new GSE regulator the ability to limit the portfolios based on their systemic risk and anchor them to their mission. Former OFHEO Director Armando Falcon recently wrote an op-ed arguing that this is critical authority the new regulator must have.

In your opinion, how critical is this authority?

2. The OFHEO report states that "by deliberately and intentionally manipulating accounting to hit earnings targets, (Fannie's) senior management maximized the bonuses and other executive compensation they received, at the expense of shareholders." ([B5])

Specifically, which senior management benefitted from these bonuses? How much did they make? Is OFHEO going to ask that this money be returned?

Who specifically directed the accounting manipulation? Who was aware of it? What was the specific role of then Chief Operating Officer Daniel Mudd, former Chief Executive Officer Franklin Raines and former Chief Financial Officer Timothy Howard?

3. The OFHEO report states that Fannie Mae lobbyists "worked to insure that the agency (OFHEO) was poorly funded" and "used longstanding relationships with Congressional staff... to interfere with OFHEO's special examination" of Fannie Mae. ([B5])

CHARLES W. BOUSTANY, JR., MD
7TH DISTRICT, LOUISIANA



COMMITTEES:
TRANSPORTATION AND
INFRASTRUCTURE

AGRICULTURE

EDUCATION AND
THE WORKFORCE

REPUBLICAN POLICY COMMITTEE

WASHINGTON, DC OFFICE:

1117 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, DC 20515
(202) 225-2031

LAFAYETTE DISTRICT OFFICE:

800 LAFAYETTE STREET
SUITE 1400
LAFAYETTE, LA 70501
(337) 235-6222

LAKE CHARLES DISTRICT OFFICE:

700 RYAN STREET
LAKE CHARLES, LA 70601
(337) 433-1747

Congress of the United States

House of Representatives

Washington, DC 20515-0304

May 19, 2005

Ms. Amanda Falcon
Office of Federal Housing Enterprise Oversight
Department Of Housing And Urban
1700 G. Street, Nw
Washington, DC 20552-0001

Dear Ms. Falcon,

I am enclosing a letter from one of my constituents,
appears to fall within your jurisdiction.

JB6
whose problem

I have contacted HUD, Legislative Affairs and was informed that this inquiry was forwarded to FEMA. I would be most grateful for your advice and assistance on the attached correspondence. Should you require any additional information, please contact Ms. Penny Frederick in my Lafayette District Office Staff at 800 Lafayette Street, Suite 1400, Lafayette, Louisiana 70501. If your agency desires to fax your reply the fax number is (337) 235-6072.

Sincerely;

Charles W. Boustany, Jr.
Member of Congress

CWB/pf

03/30/2005 17:21 FAX 3872332935

AAA REAL ESTATE NETWORK

March 15, 2005
VIA FACSIMILE

Dear Congressman Boustany,

B6

Five years ago ^{and} and their children achieved the American Dream. They now find themselves living an American nightmare. Their dream home has flooded four times since the family moved in. It now sits vacant with at least thirty-one thousand dollars in flood damage and is uninhabitable. Due to their concern for the safety and welfare of their family and because of the emotional trauma associated with the flooding, they decided to sell their home. AAA Real Estate Network Inc. put the property on the market, obtained an offer, that offer was accepted by the ABN Amro for approval (see attached). After submitting the offer to Freddie Mac, ABN Amro and Freddie Mac agreed to accept the net proceeds in conjunction with a fifteen thousand dollar contribution from the (see attached). B6 and sent B6

To date the closing attorney's office has been unable to schedule the closing, due to ABN Amro's refusal to cooperate with them. In addition to the net proceeds and the fifteen thousand dollars from the Zenons ABN Amro is withholding the thirty-one thousand dollar check issued by FEMA to repair the latest flood damage. ABN Amro is refusing to mitigate its loss and has stated that they will proceed to foreclosure against the ABN Amro has arbitrarily chosen to ignore their own written agreement and Freddie Mac's written agreement as well. We would greatly appreciate any assistance your office can provide in this matter. Please consider this a formal complaint to whomever regulates ABN Amro and Freddie Mac and a request to investigate the matter.

Respectfully Submitted,

- agent B6
- Broker B6
- seller B6
- Buyer B6



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3800
Office of External Relations

June 22, 2005

Congressman Charles W. Boustany, Jr., MD
7th District, Louisiana
1117 Longworth House Office Building
Washington, DC 20515

Lafayette District Office:
800 Lafayette Street
Suite 1400
Lafayette, LA 70501

Dear Congressman Boustany:

Our staff has researched the matters concerning your constituent, ^{Bb} as described in your May 19, 2005 letter to the Office of Federal Housing Enterprise Oversight. We determined that Freddie Mac is currently addressing the resolution of the issues in the normal course of business. Please let us know if we can be of further assistance.

Sincerely,

Joanne E. Hanley
Associate Director, Congressional Affairs

RICHARD SHELBY, ALABAMA, CHAIRMAN

ROBERT F. BENNETT, UTAH
WAYNE ALLARD, COLORADO
MICHAEL B. ENZI, WYOMING
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JIM BUNNING, KENTUCKY
MICHAEL CRAPO, IDAHO
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TIM JOHNSON, SOUTH DAKOTA
JACK REED, RHODE ISLAND
CHARLES E. SCHUMER, NEW YORK
EVAN BAYH, INDIANA
ZELL MILLER, GEORGIA
THOMAS R. CARPER, DELAWARE
DEBBIE STABENOW, MICHIGAN
JON S. CORZINE, NEW JERSEY

KATHLEEN CASEY, STAFF DIRECTOR AND COUNSEL
STEVEN B. HARRIS, DEMOCRATIC STAFF DIRECTOR AND CHIEF COUNSEL

United States Senate **AUG 4 2003**

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

July 28, 2003

The Hon. Armando Falcon, Jr.
Director, Office of Federal Housing
Enterprise Oversight
1700 G Street, NW - 4th Floor
Washington, DC 20552

Dear Mr. Falcon:

Thank you for testifying July 17 before the Committee on Banking, Housing, and Urban Affairs. In order to complete the hearing record, we would appreciate your answers to the enclosed questions from Senators Bunning and Dole.

Please set forth the question, then your answer to it, and single-space both question and answer. Please do not use all capitals.

Send your reply to Mr. John Paul Green, the Committee's Deputy Chief Clerk. He will transmit copies to the appropriate offices, including the Committee's publications office. Due to current procedures regarding Senate mail, it is recommended that you send replies:

- via Department staff member with official I.D. to 534 Dirksen Building
- or • via fax to (202) 224-5137

If you have any questions about this letter, please contact Mr. Green at (202) 224-7391.

Sincerely,

Richard Shelby

Richard Shelby
Chairman

Notes
- B5

Questions for the Record from Sen. Jack Reed
Senate Banking Committee Hearing:
"Regulatory Oversight of Government Sponsored Enterprise Accounting Practices"
July 17, 2003 at 10 am

Questions for Director Falcon

1. Quoting from your June 15, 2003, Office of Federal Housing Enterprise Oversight (OFHEO) Annual Report to Congress, "Message From the Director," you wrote:

On the occasion of our 10th Anniversary, it is with great pride that I report to Congress that the Office of Federal Housing Enterprise Oversight has developed into the strong, capable and innovative regulator that Congress envisioned when it created the Agency only a decade ago. OFHEO today is actively and aggressively fulfilling its mission of ensuring the safety and soundness of Fannie Mae and Freddie Mac (the Enterprises).

The Enterprises have remained safe and sound through another year of exceptional growth in the housing sector of our economy. In a year when more and more Americans have become homeowners, the public can take comfort in knowing that OFHEO is on the job, doing its part to ensure the strength and vitality of the nation's housing finance system.

Later, on pages 37-38 in Chapter 4 of the report, when reporting on the Freddie Mac Examination Results and Conclusions, the report states:

[Freddie Mac's] audit functions are independent and effective. The Internal and External Audit Functions have the appropriate independence. Auditors performing the work possess appropriate professional proficiency. The scope of the audit work is appropriate, and the audit work is complete. The management of the Internal Audit department is effective. Executive management and the Board of Directors are appropriately involved with and follow up on identified audit issues. The auditor's risk assessment process is effective. Internal Audit is appropriately involved in new products and new initiatives.

- a. If OFHEO is "actively and aggressively fulfilling its mission," how did such accounting inadequacy fail to be addressed in OFHEO's examination of Freddie Mac's operations, especially since the implications of FAS 133 have been discussed and implemented since 1999?
- b. How can the public "take comfort in knowing that OFHEO is on the job" if it fails to effectively oversee such problems in an appropriate time frame?
- c. How can we be sure that another similar problem at Freddie, or Fannie for that matter, is not brewing? Why shouldn't such problems be discovered, disclosed, and addressed in real time in order for OFHEO to be an effective regulator that the public can really trust?

B 5

2. Could you describe in detail what expertise the staff of OFHEO has in effectively evaluating and monitoring the various complex financial instruments that Fannie and Freddie employ for their respective operations on a regular basis?
- a. How does such expertise compare to your colleagues at Treasury, the Federal Reserve, and private GSE analysts? Please explain in detail.
3. I realize that Fannie and Freddie have voluntarily decided to file disclosures on the mortgage-backed securities with the SEC, despite being exempted from doing so by their charters. However, it is also my understanding that they do not want to register their debt securities.
- a. Would registration of the Enterprises' debt securities assist you in being a more effective safety & soundness regulator? Please explain in detail why or why not.
4. In your testimony, you recommend keeping OFHEO as a quasi-independent regulator housed within HUD. Please describe in detail how moving OFHEO and/or its oversight authority to the Office of Thrift Supervision (OTS) or the Department of the Treasury would harm or help OFHEO's ability to effectively regulate the GSEs.
5. In your testimony, you highlight OFHEO's authority to review executive compensation packages to ensure that they are not "excessive" as allowed in 12 USC 4518(a), which defines "excessive" compensation as such that is "...not reasonable and comparable with compensation for employment in other similar businesses."
- a. Please describe in detail how you interpret that definition of excessive compensation.
- b. Based on what you know now, is the compensation for former Freddie Mac CEO Brendsel, former COO Glenn, and former CFO Clarke excessive? Please explain in detail.
- c. Have you reviewed the compensation of current Freddie Mac executives? If so, are they excessive, according the above-mentioned definition? Please explain in detail.
6. On July 23, 2003, Baker, Botts, LLP released a report on its investigations of Freddie Mac and how Freddie improperly used various accounting techniques to smooth out earnings.
- a. In your testimony, you suggested that the Baker, Botts, LLP investigators were less than cooperative. Why was that the case? Please describe in detail the extent of their lack of cooperation.
- b. Did OFHEO discover the various accounting techniques described in the report as being used by Freddie Mac to smooth out earnings as a part of its ongoing examinations activities? Please explain in detail why or why not.
- c. The Baker, Botts Report also names the current CEO, Gregory Parseghian, as being intimately involved in the various questionable transactions that prompted Freddie Mac's

Board of Directors to dismiss COO Glenn and accept the resignations of CEO Brendsel and CFO Clarke. What role will OFHEO play in order to determine the extent of Parseghian's involvement? Please explain in detail.



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3800
Office of External Relations

September 12, 2007

Honorable Charles W. Dent
U.S. House of Representatives
701 West Broad St.
Suite 200
Bethlehem, PA 18018

Dear Congressman Dent:

This is in response to your request that we review your constituent's question about PMI payments. ^{Bb} wishes to stop paying PMI insurance payments associated with his mortgage loan serviced by Wells Fargo Home Mortgage (WFHM), and thinks that WFHM's request may not comply with the Homeowners Protection Act of 1998 (HPA).

^{Bb} WFHM's request is reasonable and does not violate HPA. HPA provides, in part, that PMI can be cancelled when the amount remaining balance on the loan is 80% or less of the value of the home at the time of purchase. WFHM's May 31, 2007 letter states this in section 3. B. by telling ^{Bb} that WFHM will cancel the PMI if he sends a payment of \$17,776.98. This payment will bring the loan balance to 80% of the home value at the time of purchase.

^{Bb} Mr. Roseberry's question apparently is about section 3.A. of the letter. In this section, WFHM is telling him that Wells Fargo will provide him another option to eliminate PMI. He can order an appraisal which will show the current value of his home. If the loan balance is 75% or less of the current, appraised value, WFHM will cancel the PMI. Asking for a loan balance around 75% of the current appraised home value is not uncommon due to a degree of subjectivity often found in appraisal home prices.

^{Bb} We hope this response answers question. If he has additional questions, he may wish to contact another government agency, the Office of the Comptroller of the Currency (OCC). WFHM is a subsidiary of Wells Fargo Bank, N.A., which is regulated by the OCC.

Sincerely,

Joanne E. Hanley
Associate Director for Congressional Affairs



1700 G STREET, NW, WASHINGTON, DC 20552
(202) 414-3800 FAX: (202) 414-3823

FAX TRANSMITTAL

To: **Megan Everett**

Date: **September 12, 2007**

Office of: **Congressman Dent's Office**

Time: **11:00 AM**

Facsimile Number: **610.861.9308**

From: **Joanne Hanley**

Telephone No.: **202.414.3812**

Office of: **Congressional Affairs**

Page **1** of **2**

Notes/Comments:

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*** FAX TX REPORT ***

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USAGE T 00' 21
PGS. 2
RESULT OK



1700 G STREET, NW, WASHINGTON, DC 20552
(202) 414-3800 FAX: (202) 414-3823

FAX TRANSMITTAL

To: Megan Everett	Date: September 12, 2007
Office of: Congressman Dent's Office	Time: 11:00 AM
Facsimile Number: 610.861.9308	
From: Joanne Hanley	Telephone No.: 202.414.3812
Office of: Congressional Affairs	Page 1 of 2
Notes/Comments:	



A facsimile transmission from the office of

Congressman Charles W. Dent
701 West Broad St.
Suite 200
Bethlehem, PA 18018
Phone: 610-861-9734
Fax: 610-861-9308

Date: 06-18-07
To: Marie
Fax #: 202-414-3823

From: Andrew Block Brenda Happ
 Gregg Bortz Jason Lane
 Megan Everett Laura McGarry
 Carol Halper Jennifer Smith
 Intern

Hon. Charles W. Dent

15 Pages to follow this cover letter

Comments: B6
Regarding PMI-Wells Fargo-Home Owner's Protection Act of 1998

CHARLES W. DENT

MEMBER OF CONGRESS
15TH DISTRICT, PENNSYLVANIA

HYDROGEN AND FUEL CELL CAUCUS
FOUNDER, CO-CHAIR

Congress of the United States
House of Representatives
Washington, DC 20515-3815

COMMITTEE ON HOMELAND SECURITY
SUBCOMMITTEES:
BANKING MEMBER
EMERGENCY COMMUNICATIONS,
PREPAREDNESS AND RESPONSE
INTELLIGENCE, INFORMATION SHARING
AND TERRORISM RISK ASSESSMENT
COMMITTEE ON TRANSPORTATION
AND INFRASTRUCTURE
SUBCOMMITTEES:
AVIATION
HIGHWAYS AND TRANSIT
ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS
AND EMERGENCY MANAGEMENT

June 18, 2007

Mr. James Lockhart, Director
Office of Federal Housing Enterprise Oversight
U.S. Housing and Urban Development
1700 G Street, NW
Washington, DC 20552

Dear Mr. Lockhart:

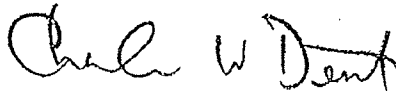
136

Enclosed please find a copy of the correspondence I have received from my constituent, Mr. [redacted] regarding some difficulties he has been having with his mortgage holder, Wells Fargo. Please review his letter and respond accordingly.

Please forward your response to my staff assistant, Megan Everett. If you need additional information or have any questions, please do not hesitate to call my office.

Thank you and best wishes.

Sincerely,



CHARLES W. DENT
Member of Congress
PA-15

CWD/me



FROM THE OFFICE OF CONGRESSMAN CHARLES W. DENT
CONSTITUENT SERVICES RELEASE FORM

[Redacted area]

B6

Redact
B6

Description of your current problem: Wish to remove PMI insurance on our home mortgage. Wells Fargo is our mortgage carrier. We thought a Loan to Value Ratio of 80 percent was needed. They say 75 percent. Fanny May is involved in this also which I do not understand how they can override "The Homeowner's Protection Act of 1998 which allows borrowers whose loans originated after July 29, 1999, to request cancellation of PMI at 80% loan to value (LTV) based on amortization or actual payments if the borrower has a good payment history, if the borrower provides evidence the property value has not decreased, and certifies there are no subordinate liens on the property. I believe this is all applies to our mortgage with Wells Fargo.

Attached is a copy of the Wells Fargo Letter to eliminate PMI.

Attached is information from my mortgage broker,

if you have a question.

B6

Please call me at my work number above as soon as you are able. Thank you so much for your help.

[Redacted signature area] B6

Due to the Privacy Act of 1974 (Public Law 93-579), Federal and State government agencies are prohibited from releasing any information or discussing regarding another individual without that individual's written permission. Your signature on this page authorizes me, as your Congressman, or an authorized member of my staff

to contact the proper officials on your behalf, discuss the matter, and receive any pertinent information.

6/5/07

Date

Signature

b6

CONTACT INFORMATION:

Congressman Charles W. Dent
701 W. Broad St., Suite 200
Bethlehem, PA 18018

Phone: 610-861-9734

Fax: 610-861-9308



Return Mail Operations
P.O. Box 10368
Des Moines, IA 50306-0368

May 31, 2007

011220 1 MB 0.360 3220011220004782 D47 04 AC01C8 PH60,708

] B6



Confirmation of PMI Deletion Eligibility Requirements

Loan Number:
Occupancy:
Date Loan Closed:
Next Payment Due Date:
Cancellation Date (80%):
Termination Date (78%):
Current Principal Balance:
Original Value: \$
Loan to Value Ratio:

] B6

Deleting PMI Based on Payment Record and Property Value:

We can delete your PMI if you meet all of the following guidelines:

1. You have had no 30-day late payments in the last 12 months, no 60-day late payments in the last 24 months, and your loan is paid current with no past due payments owed.
2. Your loan has aged at least two years and less than five years.
3. Your loan has met the required LTV ratio based on one of the following options:
 - A. Order an appraisal showing the value of your property has increased based on market appreciation. If your property has increased in value to \$ 247,702.64, your LTV will be 75% and the appraisal can be used to delete PMI.
 - B. Reduce your principal balance to an 80% LTV by sending a payment of \$ 17,776.98.

** Please note the Appraisal option is not available for a Commercial Property.**

****THE APPRAISAL MUST BE ORDERED THROUGH WELLS FARGO'S PMI DEPARTMENT****

The requirements quoted above are valid for 30 days. As your loan ages, the deletion guidelines change. Therefore, we ask you to contact us periodically to determine the requirements for PMI deletion. We recommend that you check with us when your loan is aged 1 year, 2 years, and 5 years since the guidelines normally change at these intervals.



Page 2 - Loan Number {

] 86

Ordering an Appraisal or Making Principal Payment:
Please review and follow the instructions on the enclosed authorization form. Then complete the applicable section and return the form with the required documents to the address shown on the form.

Homeowners Protection Act (HPA) of 1998:

Your loan is covered by the Homeowners Protection Act of 1998. This means the PMI coverage may be eligible for deletion on the HPA Cancellation Date shown above. On or after that date, you can request that we cancel your PMI coverage. The PMI will be deleted if you meet the following criteria:

1. You have had no 30-day late payments in the last 12 months, no 60-day late payments in the last 24 months, and your loan is paid current with no past due payments owed.

If your loan did not qualify for the HPA Cancellation criteria, it may qualify when your loan reaches the HPA Termination Date above. We review our loans on a monthly basis to determine loans eligible for HPA Termination. On the HPA Termination Date, the PMI coverage on your loan will be deleted if you meet the following criteria:

1. Your loan is paid current with no past due payments owed.

CANCELLATION POLICY: If the appraisal order is canceled prior to the inspection, there will be a \$25 processing fee and the remainder of the fee will be refunded. If you are not present for a scheduled inspection appointment, there will be an additional trip fee added to the total amount owed. Once the inspection has been completed, the appraisal fee is non-refundable.

If you have questions about this information, please call one of our servicing representatives at (866) 234-8271, Monday through Thursday, 6 AM to 10 PM; Friday, 6 AM to 9 PM; or Saturday, 8 AM to 2 PM, Central Time.



[

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Return this form to:
Rels Valuation/
Advanced Collateral Solutions
Fax: (866) 382-8795

APPRAISAL ORDER AUTHORIZATION FORM - PMI

In order to verify that the subject's current market value is \$ 247,702.64 to meet the 75% LTV requirement and remove PMI, I hereby authorize and instruct Wells Fargo Home Mortgage to order an appraisal from Rels Valuation/Advanced Collateral Solutions, a nationally approved appraisal vendor.

The cost of the appraisal is listed below by state for a typical single family residence or condominium. If the subject property contains 2-4 units, has acreage, is a manufactured house, is a waterfront property, located in an area that will involve excess travel costs and/or is valued at more than one million dollars, the appraisal fee may be higher. If the fee differs from the fee stated below, Wells Fargo Home Mortgage will contact you with a fee quote and will obtain your approval prior to proceeding with the completion of the appraisal.

Cost	State(s)
\$650.00	Puerto Rico, Alaska, Hawaii
\$425.00	Maine, Nebraska, New Hampshire, Oregon, Vermont & Washington
\$400.00	Arizona, California, North Dakota, Nevada, South Dakota & Wyoming
\$375.00	Missouri, Mississippi, Tennessee, Alabama, Delaware, & Kansas
\$350.00	All other States

Property Characteristics: (Please check all that apply)

Single Family Home Condo Manufactured Home Duplex
 Triplex Fourplex Co-op Other: _____

*Please note that the appraisal option is not available for commercial properties.

I have reviewed the appraisal cancellation policy and agree to pay for the required appraisal, utilizing the payment method selected below. Please charge my credit card or debit card (check one)

VISA/Credit MasterCard/Credit Discover/Credit
 VISA/Debit MasterCard/Debit Discover/Debit
Card Number: _____
Expiration Month: ____/____ Expiration Year: ____/____

Please print your name exactly as it appears on the credit/debit card:

Please provide your credit/debit card billing address:

Work Phone: _____ Home Phone _____ Cell Phone _____

What is the best phone number for the appraiser to call in order to schedule the inspection? _____

If you would like to receive a copy of the completed appraisal report, please provide us with your complete email address or mailing address: _____

By signing below, you are agreeing to pay for the appraisal and if you provide your email or property address, give permission to email the appraisal via internet or via U.S. mail and assume any/all risks associated with unauthorized interceptions.

Signature: _____ Date: _____

] B6



Principal Payment Authorization Form

Return this form to:
Wells Fargo Home Mortgage
1 Home Campus, X2501-01J
Des Moines, IA 50328

B6 [

Making Principal Payment to 80% LTV: Amount Needed = \$ 17,776.98

My (our) check for the amount shown above is enclosed. Please apply it to the principal balance reducing the LTV. Please delete the PMI and provide the new payment amount.

Principal reduction payments will first be applied to any outstanding and/or delinquent fees. Therefore, if there are not sufficient funds to reduce the principal on your account to 80% LTV, you will need to forward the additional funds necessary in order to cancel PMI.

I (we) wish to delete the PMI on the mortgage using the method shown above.

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FAQ: Private Mortgage Insurance

- 1. What is PMI and why is it required?
- 2. What is the minimum down payment required by a lender in order to eliminate PMI?
- 3. How long will I be required to have PMI on my loan?
- 4. How much does mortgage insurance cost?
- 5. Do lenders offer any alternative to mortgage insurance?

1. What is PMI and why is it required?
 Private mortgage insurance (PMI) is insurance written by a private company that protects the lender from losses in the event the borrower defaults on the mortgage. Borrowers are required to pay the premium for private mortgage insurance. Private mortgage insurance limits a lender's exposure to financial loss resulting from loan default. If you make a down payment of less than 20%, even if you have a good credit profile, lenders generally require private mortgage insurance.

2. What is the minimum down payment required by a lender in order to eliminate PMI?
 Typically, on a primary residence, the minimum that you need to put down to eliminate PMI is 20%. If you are putting less than this down, but wish to avoid PMI, your lender may have alternative products and pricing options they may offer in lieu of PMI.

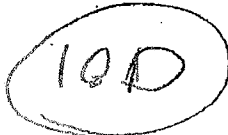
3. How long will I be required to have PMI on my loan?
 The Homeowner's Protection Act of 1998 allows borrowers whose loans originated after July 29, 1999, to request cancellation of PMI at 80% loan to value (LTV) based on amortization or actual payments if the borrower has a good payment history, if the borrower provides evidence the property value has not decreased, and certifies there are no subordinate liens on the property. Lenders are required to terminate borrower paid PMI at 78% LTV based on the amortization schedule if the loan is current. If none of the above is done, PMI will terminate automatically at the midpoint of the loan term.

For loans originated prior to July 29, 1999, PMI guidelines will vary from lender to lender and can change at any time. Some investors will not allow the cancellation of PMI. Typically, PMI is required on your loan for a minimum of 24 consecutive payments absent any law to the contrary. After that time, if you have 20% or more equity in your property and meet certain other conditions, you may request to have it removed. Typically, there is no guarantee that your PMI will be removed, and most loan investors will require a new appraisal at your expense prior to removing PMI.

4. How much does mortgage insurance cost?
 The cost of PMI is divided into two parts. The first part is a payment made at the time of closing. The second is an ongoing payment made each month with your principal and interest payment.

5. Do lenders offer any alternative to mortgage insurance?
 You definitely have options. Explore mortgage insurance alternatives offered by Wells Fargo Home Mortgage or check out our programs that allow you to avoid private mortgage insurance altogether.

Contact Us



Equal Housing Lender

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The following is excerpted from a Federal Trade Commission consumer alert.

"If you put less than 20 percent down on a home mortgage, lenders often require you to have Private Mortgage Insurance (PMI). PMI protects the lender if you default on the loan. The Homeowners Protection Act of 1998 - which became effective in 1999 - establishes rules for automatic termination and borrower cancellation of PMI on home mortgages. These protections apply to certain home mortgages signed on or after July 29, 1999 for the purchase, initial construction, or refinance of a single-family home. These protections do not apply to government-insured FHA or VA loans or to loans with lender-paid PMI.

For home mortgages signed on or after July 29, 1999, your PMI must - with certain exceptions - be terminated automatically when you reach 22 percent equity in your home based on the original property value, if your mortgage payments are current. Your PMI also can be canceled, when you request - with certain exceptions - when you reach 20 percent equity in your home based on the original property value, if your mortgage payments are current.

One exception is if your loan is "high-risk." Another is if you have not been current on your payments within the year prior to the time for termination or cancellation. A third is if you have other liens on your property. For these loans, your PMI may continue. Ask your lender or mortgage servicer (a company that collects your payments) for more information about these requirements.

If you signed your mortgage before July 29, 1999, you can ask to have the PMI canceled once you exceed 20 percent equity in your home. But federal law does not require your lender or mortgage servicer to cancel the insurance.

On a \$100,000 loan with 10 percent down (\$10,000), PMI might cost you \$40 a month. If you can cancel the PMI, you can save \$480 a year and many thousands of dollars over the loan. Check your annual escrow account statement or call your lender to find out exactly how much PMI is costing you each year.

Additional provisions in the law

- *New borrowers covered by the law must be told - at closing and once a year - about PMI termination and cancellation.*
- *Mortgage servicers must provide a telephone number for all their mortgage borrowers to call for information about termination and cancellation of PMI.*

Everett, Megan

From: J B L
Sent: Tuesday, June 12, 2007 1:39 PM
To: Everett, Megan
Subject: Re: Privacy Release Form
Attachments: 3819861187-SKMBT_50007061212080.pdf

Hi, Megan,

I found the attached information from the Federal Reserve Bank of San Francisco which seems to say I can request cancellation of PMI. I believe my home is worth above \$230,000 now and we have paid our mortgage down to \$183,958.18. Please read the attached and formula they display which I have completed.

Please pass this on to your contact. THANK YOU.

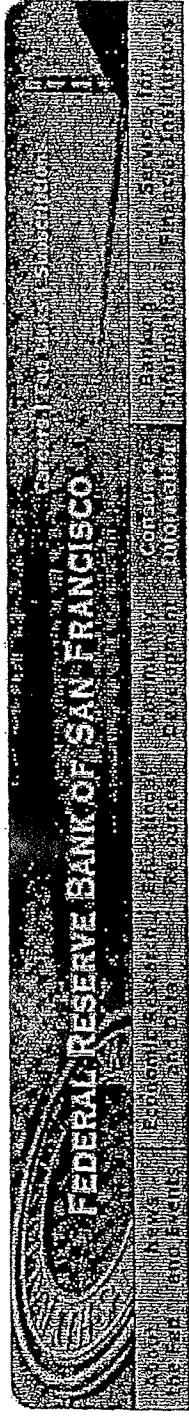
J B L

"Everett, Megan" <Megan.Everett@mail.house.gov> wrote:

Please find our privacy release form attached.
Best,

Megan Everett
Staff Assistant
Office of U.S. Congressman Charles Dent
701 West Broad St. Suite 200
Bethlehem, PA 18018
610.861.9734 Office
610.861.9308 Fax

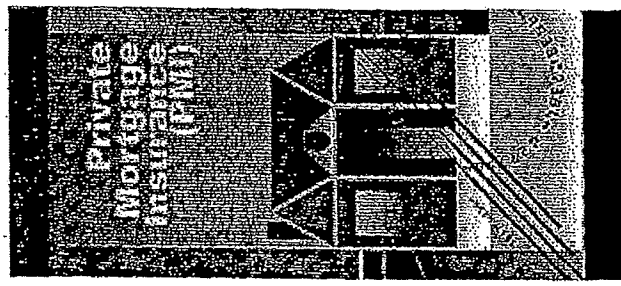
Moody friends. Drama queens. Your life? Nope! - their life, your story.
[Play Sims Stories at Yahoo! Games.](#)



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CONSUMER INFORMATION

**Private Mortgage Insurance (PMI)
New Law Requires Lenders to Cancel PMI**



What Is PMI?

If you are a homeowner, you will want to be aware of a new law that establishes rights for homeowners and rules for lenders regarding private mortgage insurance (PMI) cancellation. With this knowledge, you may eliminate premiums you may be paying unnecessarily.

- What is PMI?
- Benefits of PMI
- New PMI Requirements
- The Homeowner's Protection Act (HPA) of 1998
- How Do You Cancel or Terminate PMI?
- What Disclosures Does the HPA Require?
- What If Your Home Value Has Increased?
- For More Information

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[Personal Financial Education](#)

PMI is extra insurance that lenders require from most homebuyers who obtain loans that are more than 80 percent of their new home's value. In other words, buyers with less than a 20 percent down payment are normally required to pay PMI.

Benefits of PMI

PMI plays an important role in the mortgage industry by protecting a lender against loss if a borrower defaults on a loan and by enabling borrowers with less cash to have greater access to homeownership. With this type of insurance, it is possible for you to buy a home with as little as a 3 percent to 5 percent down payment. This means that you can buy a home sooner without waiting years to accumulate a large down payment.

New PMI Requirements

A new federal law, The Homeowner's Protection Act (HPA) of 1998, requires lenders or servicers to provide certain disclosures concerning PMI for loans secured by the consumer's primary residence obtained on or after July 29, 1999. The HPA also contains disclosure provisions for mortgage loans that closed before July 29, 1999. In addition, the HPA includes provisions for borrower-requested cancellation and automatic termination of PMI.

Why a Change in PMI Requirements?

In the past, most lenders honored consumers' requests to drop PMI coverage if their loan balance was paid down to 80 percent of the property value and they had a good payment history. However, consumers were responsible for requesting cancellation and many consumers were not aware of this possibility. Consumers had to keep track of their loan balance to know if they had enough equity and they had to request that the lender discontinue requiring PMI coverage. In many cases, people failed to make this request even after they became eligible, and they paid unnecessary premiums ranging from \$250 to \$1,200 per year for several years. With the new law, both consumers and lenders share responsibility for how long PMI coverage is required.

The Homeowner's Protection Act (HPA) of 1998

What Loans Are Covered?

Generally, the HPA applies to residential mortgage transactions obtained on or after July 29, 1999, but it also has requirements for loans obtained before that date. This new law does not cover VA and FHA government-guaranteed loans. In addition, the new law has different requirements for loans classified as "high-risk." Although the HPA does not provide the standards for what constitutes a "high risk" loan, it permits Fannie Mae and Freddie Mac to issue guidance for mortgages that conform to secondary market loan limits. Fannie Mae and Freddie Mac are corporations chartered by Congress to create a continuous flow of funds to mortgage lenders in support of homeownership. As of January 1, 2000, mortgages in amounts of \$252,700 or less are considered conforming loans. For non-conforming mortgages, the lender may designate mortgage loans as "high risk."

What Is a Residential Mortgage Transaction?

There are four requirements for a transaction to be considered a residential mortgage transaction: (1) a mortgage or deed of trust

must be created or retained; (2) the property securing the loan must be a single-family dwelling; (3) the single-family dwelling must be the primary residence of the borrower; and (4) the purpose of the transaction must be to finance the acquisition, initial construction, or refinancing of that dwelling.

How Do You Cancel or Terminate PMI?

Cancellation

Under HPA, you have the right to request cancellation of PMI when you pay down your mortgage to the point that it equals 80 percent of the original purchase price or appraised value of your home at the time the loan was obtained, whichever is less. You also need a good payment history, meaning that you have not been 30 days late with your mortgage payment within a year of your request, or 60 days late within two years. Your lender may require evidence that the value of the property has not declined below its original value and that the property does not have a second mortgage, such as a home equity loan.

Automatic Termination

Under HPA, mortgage lenders or servicers must automatically cancel PMI coverage on most loans, once you pay down your mortgage to 78 percent of the value if you are current on your loan. If the loan is delinquent on the date of automatic termination, the lender must terminate the coverage as soon thereafter as the loan becomes current. Lenders must terminate the coverage within 30 days of cancellation or the automatic termination date, and are not permitted to require PMI premiums after this date. Any unearned premiums must be returned to you within 45 days of the cancellation or termination date.

For high risk loans, mortgage lenders or servicers are required to automatically cancel PMI coverage once the mortgage is paid down to 77 percent of the original value of the property, provided you are current on your loan.

Final Termination

Under HPA, if PMI has not been canceled or otherwise terminated, coverage must be removed when the loan reaches the midpoint of the amortization period. On a 30-year loan with 360 monthly payments, for example, the chronological midpoint would occur after 180 payments. This provision also requires that the borrower must be current on the payments required by the terms of the mortgage. Final termination must occur within 30 days of this date.

What Disclosures Does the HPA Require?

For Loans Obtained on or after July 29, 1999

The HPA establishes three different times when a lender or servicer must notify a consumer of his or her rights. Those times are at loan closing, annually, and upon cancellation or termination of PMI.

The content of these disclosures varies depending on whether: (1) PMI is "borrower-paid PMI" or "lender-paid PMI," (2) the loan is classified as a "fixed rate mortgage" or "adjustable rate mortgage," or (3) the loan is designated as "high risk" or not.

At loan closing, lenders are required to disclose all of the following to borrowers:

- The right to request cancellation of PMI and the date on which this request may be made.
- The requirement that PMI be automatically terminated and the date on which this will occur.
- Any exemptions to the right to cancellation or automatic termination.
- A written initial amortization schedule (fixed-rate loans only).

Annually, your mortgage loan servicer must send borrowers a written statement that discloses:

- The right to cancel or terminate PMI.
- An address and telephone number to contact the loan servicer to determine when PMI may be canceled.

When the PMI coverage is canceled or terminated, a notification must be sent to the consumer stating that:

- PMI has been terminated, and the borrower no longer has PMI coverage.
- No further PMI premiums are due.

The obligation for providing notice of cancellation or termination is with the servicer of the mortgage.

For Loans Obtained before July 29, 1999

An annual statement must be sent to consumers whose mortgages were obtained before July 29, 1999. This statement should explain that under certain circumstances PMI may be canceled (such as with consent of the mortgagee). It should also provide an address and telephone number to contact the loan servicer to determine whether PMI may be canceled.

The HPA's cancellation and automatic termination rules do not apply to loans made before July 29, 1999.

Although parts of the new law apply only to loans obtained on or after July 29, 1999, many lenders report that they plan to follow the HPA's requirements for both new and existing loans. Making a call to your mortgage loan servicer will help you understand exactly how the law applies to you and your mortgage.

What If Your Home Value Has Increased?

When making mortgage payments, most of the payments

To get a better idea of where you stand with your mortgage, try the following formula:

Line 1 - Enter the present value of your mortgage:	\$ 183,958.18
Multiply Line 1 by 1.25	x 1.25
Line 2 - This represents the minimum value of your property required to cancel PMI:	\$ 229,948
Line 3 - Enter the purchase price of your property or a current appraisal that is acceptable to the lender or holder of the mortgage on your property (whichever is larger):	\$ 230,000
	- 235,000
	Calculate

- If the value of line 2 is larger than line 3, your lender will

during the first few years are finance charges. Therefore, it can take 10 to 15 years to pay down a loan to reach 80 percent of the loan value. If the home prices in your area are rising quickly, your property value may increase so that you can reach the 80 percent mark a lot faster. Your property value could also increase due to home improvements that you make to your home.

probably continue to require PMI.
• If the value of line 2 is less than line 3, you may be able to cancel PMI.

If you think your home value has increased, you may be able to cancel PMI on your mortgage. Although the new law does not require a mortgage servicer to consider the current property value, you should contact them to see if they are willing to do so. Also, be sure to ask what documentation may be required to demonstrate the higher property value.

For More Information

The Federal Reserve Bank of San Francisco has several other consumer brochures. These brochures are posted on our web site at:
<http://www.frbf.org/publications/consumer>.

Learn about . . .

- Bank Products
- Credit and Charge Cards
- Frauds and Scams
- How to Establish, Use, and Protect Your Credit
- Plastic Fraud
- Your Credit Report
- Your Credit Rights

To learn about your specific PMI cancellation policies, call your lender or mortgage servicing firm.

To find more information about mortgage insurance and to use a specific formula to estimate when PMI may be canceled, visit the web site of the Mortgage Insurance Companies of America.

Mortgage Insurance Companies of America
727 15th St, NW, FL 12
Washington, DC 20005-2168
<http://www.privateimi.com>
202-393-5566

The U.S. Department of Housing and Urban Development Customer Service Department can answer your questions about PMI and low down-payment loans.

U.S. Dept. of Housing & Urban Development
Attn: Customer Service
451 7th Street, SW
Washington, DC 20410
<http://www.hud.gov>
(800) 767-7468

Questions or comments about these brochures can be sent to:

Federal Reserve Bank of San Francisco
Public Information/Publications
P.O. Box 7702, MS 1110
San Francisco, CA 94120-7702

(415) 974-2163 or
e-mail us at: Pubs SF

This overview was researched and written by Consumer Affairs and Public Information staff at the Federal Reserve Bank of San Francisco.

CHRISTOPHER J. DODD
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COMMITTEES.

BANKING, HOUSING, AND
URBAN AFFAIRS

FOREIGN RELATIONS

HEALTH, EDUCATION, LABOR,
AND PENSIONS

RULES AND ADMINISTRATION

United States Senate

WASHINGTON, DC 20510-0702

WASHINGTON OFFICE:
448 RUSSELL SENATE OFFICE BUILDING
WASHINGTON, DC 20510
(202) 224-2823
TDD (202) 224-5464

STATE OFFICE:
30 LEWIS STREET, SUITE 101
HARTFORD, CT 06103
(860) 258-6940
TDD (860) 529-7498

HOME PAGE: <http://dodd.senate.gov>
E-MAIL: <http://dodd.senate.gov/webmail>

October 17, 2008

Officer in Charge
Office of Legislative Affairs
Federal Housing Finance Board
1625 Eye Street, NW
Washington, D.C. 20006-4001

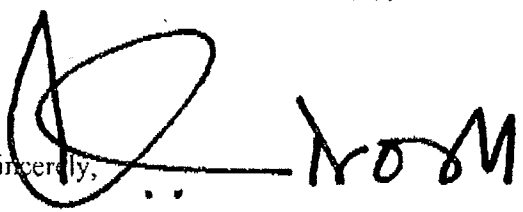
Dear Sir or Madam:

I enclose a copy of the correspondence I have just recently received from attorney
of Branford, Connecticut. Attorney represents a very recently
foreclosed borrower, f North Haven, who wishes to sell his property in a B6
workout with Freddie Mac. As you can see, attorney ' has directly contacted the
Federal Housing Finance Board to further discuss the prospects of this matter for his client. B6

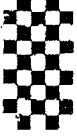
So that I may respond to this inquiry to my office, I would very much appreciate your
attention to this matter, and any efforts the Federal Housing Finance Board may provide to
follow-up with the attorney for appropriate discussion of his client's case.

Thank you very much.

Sincerely,


CHRISTOPHER J. DODD
United States Senator

Enclosures
in reply: Connecticut Office
Attn: Mr. Ed Mann



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October 14, 2008

Honorable Christopher Dodd
United States Senator
30 Lewis St Suite 10J
Hartford, CT 06103

Via Fax # (860) 258-6958

RE: Freddie Mac

Dear Senator Dodd:

I am writing to you because I have no where else to turn.

I represent an indigent homeowner who barely speaks English. He lost his home in foreclosure to Freddie Mac while we were awaiting our closing date to sell the property. Now, it seems Freddie Mac has some policy against reversing its actions and allowing this same.

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B6 [] is penniless and will most likely file bankruptcy over this. I have a buyer ready to close in three days if Freddie Mac will just allow the sale.

Our sales price was determined after extensive efforts at marketing by extremely competent Realtors. Freddie Mac and my government will lose thousands of dollars attempting a resale. We have a buyer now and can close immediately. We can easily find a way to protect Freddie Mac.

I was told by one party at Freddie Mac that we would be helped and another that we would not. The foreclosute attorneys have proceeded to obtain a deficiency judgment while we wait.

All I need is for Freddie Mac to be willing to close in a normal manner like any other lender or seller. We can close immediately!

I ask you to forward my attached letter to some official at Freddie Mac with management

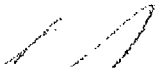
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authority to review this matter.

Anything you could do to help Mr. Phan would be greatly appreciated. He can not help himself.

Time is of the essence. Our buyer will "walk away" in a week.

Surely in this economic environment someone at Freddie Mac can think outside the box and let us close.

Yours truly, 

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JBb

Office of Senator Chris Dodd
Information Release Form — Privacy Act of 1974

Under the Privacy Act of 1974, your signature is required as authorization for Senator Dodd to contact and work with federal agencies on your behalf. Please complete the following information, sign the form, and mail it to Senator Dodd's Hartford, CT office.

Name: _____

Address: _____

City and Zip Code _____

Daytime phone _____

Fax number: (_____) _____

Social Security number: _____] Bb

Veteran Case Identification number, CSA number, IRS number, INS number, or other relevant ID: _____

Federal agency you need help with: Freddie mac

Brief description of the problem (you may attach additional pages or copies of related documents):

Letter attached.

I authorize the Office of United States Senator Chris Dodd to address the matter described above on my behalf and to receive any relevant information the Senator and his staff may need in their efforts to provide assistance to me.

[Handwritten Signature]

Signature and Date 10/14/08

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- *but not*

Please print and mail to:

U.S. Senator Christopher J. Dodd
30 Lewis St Suite 101
Hartford, CT 06103

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October 14, 2008

Ronald A. Rosenfeld
Chairman
Federal Housing Finance Board
1625 Eye Street, NW
Washington, DC 20006-4001

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RE: Freddie Mac

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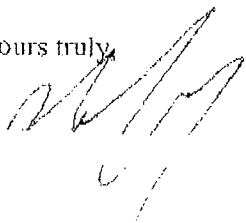
Dear Chairman Rosenfeld:

I represent a very recently foreclosed homeowner borrower who want to sell his property in a workout with Freddie Mac. However, i seem to have some trouble communicating with the right person to do so. One party tells me we can do this, but another tells me we can't.

I enclose correspondence sent to Freddie Mac about this matter. Please forward this to the correct party to have the appropriate person respond to me.

Thank you for your assistance.

Yours truly



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October 14, 2008

Honorable Robert E. Bostrum
Executive Vice President and General Counsel
Freddie Mac
8200 Jones Branch Drive
McLean, Virginia 22102-3110

] B6

RE:

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Dear Mr. Bostrum:

PLEASE HAVE SOMEONE CONTACT ME BY FAX, PHONE OR EMAIL ABOUT THIS MATTER.

I enclose correspondence sent to Freddie Mac about this matter. Please have the appropriate person respond to me.

I can not locate the proper corporate officer at Freddie Mac to assist me. Please forward my correspondence to the correct office for a consumer mortgage loan workout.

Yours truly,



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October 14, 2008

Honorable Raymond G. Romano
Acting Chief Credit Officer
Senior Vice President of Risk Oversight
Freddie Mac
8200 Jones Branch Drive
McLean, Virginia 22102-3110

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RE:

] BL

Dear Mr. Romano:

PLEASE HAVE SOMEONE CONTACT ME BY FAX, PHONE OR EMAIL ABOUT THIS MATTER.

I enclose correspondence sent to Freddie Mac about this matter. Please have the appropriate person respond to me.

Freddie Mac has agreed to help me, and another party at Freddie Mac refuses to help me. I need your assistance.

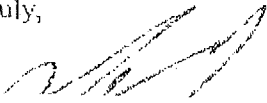
Essentially, Freddie Mac became the owner of the borrower's (my client's) property in foreclosure while we were waiting for the completion of financing arrangements by a party to whom we sold the property (at as price much higher than you are going to get otherwise). I want

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to complete the sale, and your servicing agent TBW has tried to help us. However, your policy is apparently that we must somehow pay you cash up-front before a closing and wait for you to transfer title later. I submit that this will mean Freddie Mac will get a lot less money for the property. I want to close but still protect Freddie Mac.

I look forward to working with you to resolve this matter.

Yours truly,



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October 14, 2008

PLEASE FORWARD THIS LETTER TO:

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Honorable David M. Moffett
CEO
Freddie Mac
8200 Jones Branch Drive
McLean, Virginia 22102-3110

RE:

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TBW)

Dear Mr. Moffett:

PLEASE HAVE SOMEONE CONTACT ME BY FAX, PHONE OR EMAIL ABOUT THIS MATTER.

I faxed your office yesterday in an attempt to contact the party who communicated with my office about this loan. Please accept this follow-up letter and forward it to whomever is dealing with this matter.

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Apparently a very competent and hardworking Fannie Mae employee named

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has unsuccessfully attempted to find a way to help TBW with this matter.

Our problem is simple. Fannie Mae, through its servicing agent, TBW, has become the title owner of this property through strict foreclosure at the same time the borrower was attempting to close the property with a "short sale". We have the buyer, loan approval and "clear to close" for the new buyer to close with about 3 days notice. However, it seems Fannie Mae has a policy that it will not "roll back" the title to this property, to allow the sale, unless it is first paid in cash the full proceeds of the sale.

Which come first, the chicken or the egg? We can't close unless the buyer receives title at closing. You won't close unless you are paid, before closing, the cash price.

I understand Freddie Mac's concern over having to return to a long and costly foreclosure process if our closing does not take place. That is normally a good policy, but we are not in normal economic times.

The net proceeds guaranteed to TBW for Freddie Mac are \$213,957.00 for a first mortgage loan (and \$5,000) on a second mortgage loan in which you may not be involved). If you want a cash sale, you will probably get half of that. If you put it back on the market, in its current and deteriorated condition, the home will bring much, much less for an asking price - if you sell it at all. We had difficulty finding this buyer in this market, and we had two earlier failed attempts to sell to others.

I find it impossible to believe Fannie Mac would not jump at the chance to sell this property now under terms and conditions to allow this closing.

If you will simply let the attorneys in Connecticut who represent the lender in foreclosure work with me, we can very easily find a solution. I can think of at least two off of the top of my head:

1. Deed in Lieu of Foreclosure.

The borrower can provide, in exchange for Freddie Mac's cooperation, a deed in lieu of foreclosure to be held in escrow in the event we can not close. Then, if there are any problems, Freddie Mac just records the deed and eliminates any need to return to court for further foreclosure actions.

J Bb

2. Quitclaim Deed

Freddie Mac can simply provide a quitclaim deed at closing and be paid at that time. It is the same as selling it on your own, but MUCH faster and at a higher price. We are ready to close NOW.

There are other ways to do this, but those are two simple, inexpensive ways to have an immediate closing that come to my mind even before I put much thought into it. You just need to give your attorneys and TBW the green light to work out a deal with me.

I understand the need for your old policy of not doing deals this way, but can't you rethink that just for this borrower? If you do not, he faces bankruptcy which will now follow the foreclosure and deficiency judgment. He is penniless and jobless with few prospects in sight.

Your contact at TBW is ^{Bb} Victor. If you just advise him to make this deal, we can find a way to close and pay you in less than a week. We were ready to close TODAY until this impasse occurred.

I again ask for a plenary review of this matter. I request that Freddie Mac allow us to sell the property and be paid at the closing. This requires Freddie Mac to somehow provide a transfer (or "roll back" as you seem to call it) of ownership back to the borrower or to the new owner. This is a simple legal matter for the attorneys to work out and completely protect you at the same time. I ask only for the opportunity to do this.

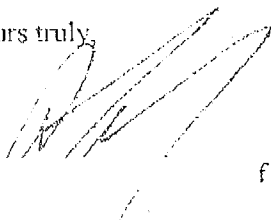
All of us will lose tax dollars when this property sells for \$125,000 in six months. The old borrower will file bankruptcy. The balance will be a complete loss. This is unnecessary. You just have to think outside the box. We'll clearly be able to both protect and assist Freddie Mac.

Please give me the opportunity to do so for this borrower. There must be a way you can do this!

Time is of the essence. By next week, the buyer will look for other purchase opportunities, and we will have squandered this chance to close.

I look forward to working with you to resolve this matter.

Yours truly,



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October 14, 2008

Honorable David Moffett
CEO
Freddie Mac
8200 Jones Branch Drive
McLean, Virginia 22102-3110
U.S.A.

Telephone: (703) 903-2000
Toll Free: 800-424-5401
Fax: (703) 918-8403

RE:

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Dear Mr. Moffett:

My office was advised last week that Freddie Mac approves a "short sale" of this property and would instruct the servicing lender of the same. Unfortunately, I do not have the name of the person who called.

I ask that this letter be forwarded to the proper party within your organization so I may identify with whom to communicate.

Time is of the essence.

THE SERVICING AGENT, "TBW", ADVISES ME THAT FREDDIE MAC STILL DOES NOT AGREE TO A SHORT-SALE UNLESS IT IS A CASH SALE WITH CASH PROCEEDS PAID UP-FRONT BEFORE THE SALE CAN EVEN BE APPROVED AT ALL BY TBW OR FREDDIE MAC! WE HAVE AN APPROVED BUYER WITH APPROVED LENDING AND "CLEAR TO CLOSE" WITHIN ABOUT 2 OR 3 BUSINESS DAYS. THAT BUYER WILL RESCIND ITS OFFER THIS WEEK IF WE CAN NOT GET APPROVAL TO CLOSE.

] Bb

**DOES FREDDIE MAC REALLY WANT TO PURCHASE THIS RUN-DOWN
PROPERTY INSTEAD OF ALLOWING A SHORT SALE FOR WHAT WILL
CLEARLY BE A HIGHER PRICE THAN YOU WILL GET ON A RESALE?**

This property is in foreclosure. The "law day" for strict foreclosure has passed while we were waiting for a "short sale" to complete its closing. Title is now held by TBW and Fannie Mac. Our short sale is ready to close, but we must undo the title transfer and effect a closing. TBW is willing to proceed, but Fannie Mae must agree. I need a "pay-off" type of letter agreement so the lender for our borrowers will schedule a closing. The buyer has "clear to close", but TBW can't schedule a closing unless we pay cash in advance. My buyer can't pay cash except at closing. The TBW contact is [Bb] He needs approval to close.

Fannie Mac contacted my office, but I need to contact the proper party to coordinate a closing. Surely in this economic environment Fannie Mae does not want to acquire this property. My client is nearly bankrupt. You won't get anything further from him.

TBW HAS ADMONISHED ME FOR CONTACTING YOU AT ALL.

Please provide me the proper contact information by fax or email. If I can't resolve this very quickly, the matter can't be settled.

TBW's attorneys continue with the post-foreclosure action by asking tomorrow in court for a deficiency judgment against the borrower. This will almost certainly force a bankruptcy upon my client.

TBW and its attorneys are acting quickly and aggressively to stop my efforts at settlement. If you are approving a settlement, Freddie Mac needs to act just as aggressively to allow us to settle.

Yours truly,

] Bb



Federal Housing Finance Agency
1700 G Street, N.W., Washington, D.C. 20552
Phone: 202-414-3800
Fax: 202-414-3823

November 3, 2008

The Honorable Christopher J. Dodd
Committee on Banking, Housing, and Urban Affairs
United States Senate
534 Senate Dirksen Office Building
Washington DC 20510

Dear Chairman Dodd:

Thank you for your recent inquiry on behalf of your constituent, Ms. B6

We have contacted Fannie Mae and understand that Fannie Mae has granted a 60 day stay so that the Attorney General and Ms. B6 attorneys have more time to pursue an alternative solution for this property.

Please let me know if you have any additional questions about this case.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Lockhart III', written in a cursive style.

James B. Lockhart III
Director, Federal Housing Finance Agency
Chairman, FHFA Oversight Board

CHRISTOPHER J. DODD, CONNECTICUT, CHAIRMAN

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United States Senate
COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

November 14, 2008

The Honorable James B. Lockhart III
Director
Federal Housing Finance Agency
1700 G Street, N.W.
Washington, D.C. 20552

Dear Director Lockhart:

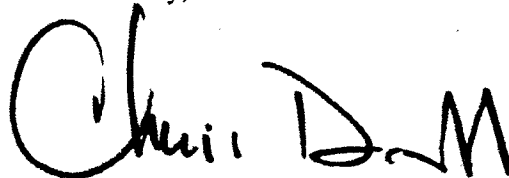
I call your attention to the attached letter and article regarding renters in Connecticut who are in danger of suddenly losing their housing as a result of foreclosures. We continue to hear numerous stories about renters who paid their rent each and every month only to be evicted from their housing when the property owner has been foreclosed upon. Based on reports of these evictions, Congress included in the Emergency Economic Stabilization Act ("EESA") a provision (Section 109(b)) requiring Treasury, in concert with the Federal Housing Finance Agency and other federal property holders, to "permit bona fide tenants who are current on their rent to remain in their homes under the terms of their lease."

Unfortunately, it appears that Treasury and FHFA have not yet put in place the necessary procedures to ensure compliance with Section 109(b). The attached letter from Greater Hartford Legal Aid details the situation of two renters whose homes are now owned by FHFA, as conservator of Fannie Mae and Freddie Mac. These renters are being evicted, an outcome EESA was clearly intended to prevent.

I request your immediate attention to this matter, in the hopes that these tenants will not be evicted from their homes if they are current under their leases. As you know, foreclosures are devastating for families and communities. While we expect FHFA and other federal agencies to do everything within their power to prevent foreclosures, where foreclosures do occur, we must work to minimize the impact, consistent with the new federal law.

I look forward to your quick response regarding not only what can be done about these Connecticut residents, but what FHFA is doing to comply with the renter protections contained in Section 109(b) of EESA.

Sincerely,



CHRISTOPHER J. DODD
Chairman

received
12/3/07/ced

] B6

November 24, 2007

Ms. Bridget A. Macaskill
Chair of the Compensation Committee
Fannie Mae
3900 Wisconsin Avenue NW
Washington, DC 20016-2892

Dear Ms. Macaskill:

I have read the rather unconvincing rationale for the Executive Compensation for Fannie Mae Senior Executives in the Company's 2006 Annual Report and I would like to express my dismay and dissatisfaction with the actions of the Compensation Committee which you chair.

It is incomprehensible to me that given the dismal performance of Fannie Mae's stock and the continuing regulatory and accounting missteps the company's leadership has perpetrated, most caused by or occurring on the watch of the current management team, that they would be compensated so generously. Shouldn't there be a correlation between their performance and their compensation? How can it be said that they have done a job worthy of this level of compensation given the company's pitiful stock price? I have to question if, as Chair of the Compensation Committee, you and the members of the Committee are exercising any independent judgment or representing the interests of the stockholders.

Instead of providing Fannie Mae executives excessive, undeserved and exorbitant compensation the company should be using those resources to support making housing more affordable and accessible to low and moderate income people. Do you know how much the \$14 million to Dan Mudd or the \$9 million to Rob Levin could do to help to make housing more affordable for more low and moderate income people in this country? Alas, it appears that greed continues to be at the heart of the problems at Fannie Mae – at both the Executive and Board level.

In one of his early speeches at Fannie Mae Dan Mudd said "**Damage control is the trailing indicator of poor execution.**" It is clear to me that his tenure at Fannie Mae has been an unending series of glaring examples of damage control as a result of his poor leadership in the face of the challenges plaguing Fannie Mae. Shouldn't he be held accountable?

Please help me understand how this level of performance is condoned and rewarded. I look forward to your reply.

Sincerely,

] B6

CC: ✓ Stephen B. Ashley, Chairman of the Board
James B. Lockhart III, Director of OFEEO ✓
Congressman Chris Van Hollen
Daniel Mudd, President & CEO



Federal Housing Finance Agency
1700 G Street, N.W., Washington, D.C. 20552
Phone: 202-414-3800
Fax: 202-414-3823

December 10, 2008

The Honorable Christopher J. Dodd
Chairman
Committee on Banking, Housing and Urban Affairs
U.S. Senate
534 Dirksen Office Building
Washington, DC 20510

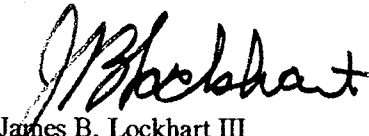
Dear Chairman Dodd:

Thank you for your recent inquiry regarding your constituent, [redacted] whose home was sold in a foreclosure auction. A potential buyer has showed interest in the property and [redacted] attorney, Mr. [redacted] requested that the purchase be allowed.

We contacted Freddie Mac about the foreclosure sale. Freddie Mac has agreed to request that a judge rescind the foreclosure sale so that the home can be sold to the interested buyer. This solution would reduce the negative impact on [redacted] credit rating. The hearing on this issue is currently scheduled for December 15, 2008. All parties are hopeful this will resolve the issue.

Please feel free to contact our office if you have any further questions.

Sincerely,


James B. Lockhart III
Director, Federal Housing Finance Agency
Chairman, FHFA Oversight Board

20081208 002



Federal Housing Finance Agency
1700 G Street, N.W., Washington, D.C. 20552
Phone: 202-414-3800
Fax: 202-414-3823

December 11, 2008

The Honorable Christopher J. Dodd
Chairman
Committee on Banking, Housing and Urban Affairs
U.S. Senate
534 Dirksen Office Building
Washington, DC 20510

Dear Chairman Dodd:

Thank you for your letter of November 4, 2008, regarding renters in Connecticut affected by foreclosures. FHFA has taken several actions regarding this issue that I would like to share with you.

We contacted ^{B6} Attorney with Greater Hartford Legal Aid, to confirm the current occupancy of the properties, status of the evictions, and communication he's had with the Fannie Mae and Freddie Mac (the Enterprises) since the letter. On December 5, 2008, he identified two additional Connecticut REO properties with tenants. The information on all four properties has been forwarded to the Enterprises which will follow-up directly with their eviction attorneys and ^{B6} During this difficult period, both Fannie Mae and Freddie Mac are committed to work with the parties involved to seek solutions that will allow tenants to remain in foreclosed properties.

Both Enterprises are reviewing existing policy and procedures on tenant-occupied single-family REO properties. They are addressing policy changes with the understanding that allowing tenants to stay would require at a minimum:

1. The property is in habitable condition.
2. The Enterprise is allowed to bring the property up to landlord-tenant codes and legal requirements.
3. The tenant has a valid current lease and rent has been paid on time.
4. The tenant has sufficient income to pay market rent in the future.

We will continue to monitor the Enterprises' progress towards finalizing the related single-family policy and procedures.

Please feel free to contact our office if you have any further questions.

Sincerely,

James B. Lockhart III
Director, Federal Housing Finance Agency
Chairman, FHFA Oversight Board



Greater Hartford Legal Aid

November 4, 2008

Senator Christopher Dodd
c/o Ed Mann
30 Lewis Street
Hartford, CT 06103

Dear Senator Dodd:

This office is currently representing two tenants
CT and of
who are being evicted
after Fannie Mae and Freddie Mac became the
owners of the respective properties after foreclosure. Ms.
was current on the terms of her Section 8 lease when she
was served with the eviction papers. who had a
lease with an option to purchase also was current on the terms
of his lease when he was served with the eviction papers.

B6

B6

B6

B6

Section 109 (b) of the Emergency Economic Stabilization Act of 2008 (copy enclosed) clearly states that the Secretary of the Treasury is supposed to work with the Federal Housing Finance Agency (the conservator for both Fannie Mae and Freddie Mac) "permit bona fide tenants who are current on their rent to remain in their homes under the terms of the lease". Both and are such bona fide tenants.

B6

B6

Until Fannie Mae and Freddie Mac determine how they are going to meet their obligations under bailout bill and promulgate appropriate regulations, they need to put an immediate halt to all of their on-going eviction cases throughout the country. This is the only way that tenants such as Ms. and Mr. will receive the protections promised to them. I urge you take the action necessary to
Greater Hartford Legal Aid, Inc.

B6

B6



achieve this result.

Call me [] if you have any questions or if you need any additional information.

Sincerely,

Attorney at Law

Enc.

B6

B6