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Date and time of contact:	Name of the Employee(s) Contacted (Name and Title)	Brief description of the communication: (attach separate sheet if necessary)
February 25, 2010	Herbert M. Allison, Jr. Assistant Secretary for Financial Stability	The incoming letter expresses concern that Supplemental Directive 10-02 will damage investor demand for future-mortgage securities.

Name of the Employee(s) who prepared this form:	Date
Luke Harman	April 27, 2010

Registered Lobbyist Name:	Title:	Firm or Organization:, if applicable	Client
Micah S. Green	Counsel	Patton Boggs	Mortgage Investment Coalition

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February 25, 2010

Mortgage Investors Coalition
Micah S. Green, Counsel
202-457-5258

The Honorable Herbert M. Allison, Jr.
Assistant Secretary for Financial Stability
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Re: Proposed HAMP Supplemental Directive 10-02

Dear Mr. Assistant Secretary:

The Mortgage Investors Coalition ("Coalition") is an advocacy group comprised of United States based asset management firms who are invested in billions of dollars of Americans' first mortgages on behalf of their clients, which include public and private sector pension funds, university endowments as well as individual investors.

We are writing to comment on the proposed Supplemental Directive 10-02 ("SD 10-02") for the Home Affordable Mortgage Program ("HAMP"). While this proposed directive, like other recent directives, deals with situations where the servicer has not completed the conversion of a trial loan modification into a permanent loan modification, we are concerned that SD 10-02 will have the unintended consequence of damaging investor demand for future mortgage-related securities while also creating additional moral hazard. Moreover, we believe that the proposed directive fails to deal with the negative equity problems associated with HAMP modifications - namely that borrowers owe far more than their houses are worth and that even with a HAMP modification, borrowers often have total debt payments that exceed their ability to pay. We would also like to express our disappointment that we, investors without large servicing platforms, were excluded from the working group that created this directive.

While we understand that this directive is complementary to your earlier policy announcement to begin requiring pre-documentation for all trial modifications beginning in June 2010 and we support such pre-trial modification documentation, we remain very concerned about the proposals set forth in SD 10-02.

First, although we would have preferred to participate in earlier discussions with servicers and other market participants concerning this proposed directive, we appreciate the opportunity to comment on this proposal before it is adopted. We are alarmed that the only "investors" brought to the table over the last two months were large servicing platforms, who invest primarily in second liens and unsecured debt. These are the same parties the members of the Mortgage Investors Coalition believe have inherent conflicts and whose interests are not necessarily in the borrower's or third party investor's best interests. Allowing them to be the only voice of the "investor community" in developing such policies will not produce informed or effective solutions.

The private institutional mortgage investor has been an integral part of the mortgage market, reducing the cost of borrowing for homeowners. Without the willingness of private investors to absorb nearly $2 trillion of supply, there would be no source of such demand for mortgage investment products other than the federal government. We are now in a situation that, because of the current state of the mortgage securitization market, the government, through the GSEs, is essentially the only source of demand for new mortgage product. I think we all agree that such an arrangement is unsustainable.

For these reasons, it is clear that while the actions taken today to assist troubled homeowners must not only be appropriate and effective, they must also be fashioned in a manner that does not risk the future viability of the US mortgage market. As the government plans reforms for the GSEs, policy makers will not have flexibility to fashion a new program if there is not demand in the private market for mortgage products. Therefore, the implementation of policies that abrogate contracts, ignore the importance of the seniority of liens, and result in a taking of value from senior first lien investors to the benefit of subordinate or unsecured investors truly jeopardizes the ability and willingness of institutional investors to continue to devote resources to the mortgage market. These institutional investors include direct investors and asset managers who represent pension funds, insurance companies and others who invest on behalf of real people whose futures depend on the protection of the value of their investments. While Treasury may couch those policies as providing a temporary bandage to the homeowner, they do not provide long term relief to that troubled homeowner and further, these policies make it more difficult for investors to make knowledgeable investment decisions in the mortgage market because of the uncertainty being perpetuated.

Specifically, SD 10-02 appears to deal with an ongoing frustration that converting trial modifications into permanent modifications is not only cumbersome and difficult, but also problematic when participating homeowners are already in foreclosure proceedings, beginning bankruptcy proceedings and/or simply not paying their mortgage. The proposal you are considering will signal that if homeowners can simply access the trial modification program, they cannot be foreclosed upon even if they stop paying their mortgage. To simply declare that once a borrower is approved for a trial modification he or she cannot be foreclosed upon, no matter what actions the homeowner takes, sets a very bad precedent and eliminates any accountability that exists between the borrower and the lender.

Furthermore, the draft directive ignores any of the other debts that are saddling the homeowner. Thus, while the draft directive seems to sanction not paying the first mortgage, there is no mention of whether the homeowner is expected to continue paying other obligations impacted by a bankruptcy proceeding, such as a home equity loan, auto loan or credit card bill. Once again, the senior secured first lien investor has been disadvantaged by a government policy that disregards the hierarchy of liens and the importance of well established contracts.

In fact, it is the subordinated and unsecured debt that is truly hurting the troubled homeowner. The recently released January 2010 Loan Modification Report indicates that of the 116,000 permanent modifications now completed (out of 940,000 trial modifications), the median "back-end debt to income ratio" (total monthly debt payments to monthly gross income) is 59.7%. Although their first lien payment has been successfully brought down to 31% debt to income ratio, with nearly 60% of gross income going to pay all debts, these permanent modifications have a serious risk of redefault. In fact, the HAMP requires borrowers with a back-end debt to income ratio in excess of greater than 55% to seek housing counseling. Without question, the risk of redefault of the permanent modifications remains great.

This is why a group of institutional investors organized to advocate a more permanent solution to the troubled homeowners' predicament. The government programs to date have focused almost exclusively on affordability and not on how much equity the homeowner has in the home. It has become clear with the precipitous decline of the value of homes, particularly in areas of the country hardest hit by the recession, that any policy that fails to address the problems of troubled homeowners whose mortgages are severely underwater is a policy that misses the mark. This is why for the last several months mortgage investors, as a group, have strongly supported and made specific proposals to evolve the HAMP into a program that not only deals with the affordability issue, but that will also address the long term problem of negative equity.

We continue to believe that moving principal reduction to the top of the HAMP waterfall is essential to providing the environment for homeowners to not only afford to pay their mortgage but also to have the desire and incentive to pay their mortgage because they will once again have "skin in the game." Furthermore, we believe that second liens should be reduced by at least a proportional amount as the first lien (and possibly more) to reduce the back-end debt to income ratio to a level that will help ensure success. Government money should not be utilized for these write downs, although we acknowledge that the banks that hold second lien positions may need accounting relief for such a write down. But investors in the first lien positions are not asking for any government assistance or reimbursement for the reduction in principal.

Furthermore, we believe that it is essential that the end result of this modification be a refinanced mortgage issued under existing FHA programs. This will provide a requalification and reunderwriting of the homeowner to ensure all borrowers are qualified. It will result in a properly sized and termed mortgage helping to keep the homeowner in their home now and provide them mobility and options now and in the future. It also ensures that the new mortgage is clean, well documented and the homeowner qualifies and can make the payment.

In closing, we are concerned that SD 10-02 will have an extremely negative impact on investors of first lien interests while comparatively benefiting subordinate and unsecured investors. We fear it will rattle the confidence private investors will have in the contracts they sign and the risks they are taking when they invest in residential real estate products. This abrogation of contracts and the subsequent uncertainty is something that will have long lasting negative effects for the much needed private mortgage market. And the impact of these decisions will ultimately be borne by struggling homeowners.

We understand you are trying to help troubled homeowners stay in their homes. It is our belief that we have presented far more effective ways to help troubled homeowners now and going forward. Further, it is detrimental and damaging to the entire mortgage market to suggest that homeowners can stop paying their mortgage without any fear of consequence.

We look forward to working with you on better ways to address the needs of the troubled homeowner than the ones articulated in the draft of Supplemental Directive 10-02.

Sincerely,

Micah S. Green
Counsel, Mortgage Investors Coalition

cc: Secretary Shaun Donovan, U.S. Department of Housing and Urban Development
Mr. Larry Summers, National Economic Council
Ms. Diana Farrell, National Economic Council