

U. S. House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515
March 4, 2010

Mr. Brian Moynihan
President and Chief Executive Officer
Bank of America Corporation
100 N. Tryon Street
Charlotte, NC 28255

Mr. Vikram Pandit
Chief Executive Officer
Citigroup, Inc.
399 Park Avenue
New York, NY 10043

Mr. James Dimon
Chairman and Chief Executive Officer
JPMorgan Chase & Company
270 Park Avenue
New York, NY 10017

Mr. John Stumpf
President and Chief Executive Officer
Wells Fargo and Company
420 Montgomery Street, 12th Floor
San Francisco, CA 94104

Dear Messrs. Moynihan, Pandit, Dimon and Stumpf:

The mortgage foreclosure crisis that began over two years ago, and which continues to be a prime contributor to our nation's current economic downturn, burdens millions of hard-working American families. Congress and the Obama Administration have worked hard to address foreclosures by enabling and encouraging loan modifications, but the private sector's response has fallen far short of the need. Many homeowners are eager to save their homes despite being "underwater," but find that lenders and servicers are unable or unwilling to make necessary modifications. These homeowners are increasingly deciding to walk away and thus foreclosures continue to mount, deepening the crisis.

To save homes on a large scale, we must move past temporary modifications in interest rates or terms and focus on permanent principal reductions that result in truly sustainable mortgages. There is no more important priority for me in our efforts to restore stability to our mortgage market.

Many investors in first-lien mortgages have indicated that they are willing to accept the fact of significant losses on those investments in order to move on and use their money for other purposes, rather than having it locked in underwater mortgages with a high and growing likelihood of foreclosure. With the interests of homeowners and investors aligned in this way, it should follow that large numbers of principal-reduction modifications could be made relatively quickly. That is not happening. According to investors, Administration officials, and other experts I have consulted, holders of second-lien mortgages are now a principal obstacle to many modifications. The problem of second-lien mortgages standing in the way of successful principal reduction modifications has reached a critical stage and requires immediate attention from your institutions.

Large numbers of these second liens have no real economic value – the first liens are well underwater, and the prospect for any real return on the seconds is negligible. Yet because accounting rules allow holders of these seconds to carry the loans at artificially high values, many refuse to acknowledge the losses and write down the loans, which would allow willing first lien holders to reduce principal and keep borrowers in their homes.

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The four organizations you lead are major participants in the second-lien market. Failure to modify these debts has become a major and unnecessary obstacle to thousands of Americans being able to stay in their homes. I urge you in the strongest possible terms to take immediate steps to write down these second mortgages and allow principal reduction modifications of the underlying first liens to take place. If there are legal obstacles to your doing so, we will work with you to remove them.

I will be calling you within the week to discuss what your institutions plan to do to remove the second liens you own or control as impediments to principal reduction modifications.


BARNEY FRANK
Chairman