



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.

November 13, 2008

ASSISTANT SECRETARY

The Honorable Charles E. Grassley  
Ranking Member  
Committee on Finance  
United States Senate  
Washington, DC 20510

Dear Senator Grassley:

The Secretary asked me to thank you for the important points you articulated regarding the reported foreclosure mitigation plan under discussion. As part of our ongoing policy development process we are currently evaluating a wide range of options including programs that provide direct relief to at-risk homeowners, though we have reached no conclusions about moving forward with any specific program. As we examine each option, the Treasury Department remains acutely aware of the potential for moral hazard and fraud and will take every step to eliminate expenditures that result from these factors and protect the taxpayer to the greatest extent possible.

We understand that some programs could create situations in which lenders have an incentive to “game the program”, as you described in your letter, by enrolling their worst borrowers—the ones they know will fail. As we continue discussions with the FDIC and others, we are firm in our resolve to consider only potential program designs that align lender and government incentives. To this end, it would be crucial to ensure that lenders have a financial stake in the success of each loan modification. In any such program, lenders would bear a significant part of the cost of modification and would continue to have a financial stake in the successful outcome of the modification. Such a design would provide lenders and servicers with an incentive to enroll those borrowers who are most likely to succeed and provide a natural screen against subsidies to loans that were fraudulently or improperly originated and have a high probability of default.

The Treasury Department will continue to work towards solutions which appropriately provide relief to struggling homeowners while offering reasonable protection for American taxpayers. We look forward to providing further detail regarding our programs as soon as possible.

Sincerely,

Kevin I. Fromer  
Assistant Secretary for Legislative Affairs