

To the Editor of the New York Times:

With his short-sighted refusal to reduce principal on Fannie and Freddie mortgages, Ed DeMarco fails to explain what happens to these properties.

Underwater homes sold at foreclosure auctions are almost never bought by third parties. Instead, they are “sold” back to the bank, or, where Freddie and Fannie own the mortgage, to the taxpayers. This is because Fannie and Freddie set the minimum auction price. Since they do not want to post a loss on their balance sheet this price is always equal to the mortgage debt. With this system, Fannie and Freddie have become the largest landowners in many neighborhoods. Expect them to hold these properties with the hope that they can sell when property values bounce back to bubble highs. During that time – which will last decades in high foreclosure communities – taxpayers will pay taxes, insurance, and upkeep for these empty houses.

DeMarco’s analysis does not consider these realities nor that Fannie and Freddie’s ownership of these homes blights once thriving neighborhoods. During the 1930s, foolish policy decisions led to the creation of Hooverilles; 2012 will see the creation of “DeMarco-villes.”

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