September 23, 2008

To: Members of the U.S. Senate and House of Representatives

Re: Opposition to Including Bankruptcy Changes in Mortgage-Market Stabilization Plan

The undersigned organizations urge you not to include bankruptcy provisions in legislation implementing the Department of the Treasury's proposal to stabilize the mortgage markets.

Specifically, we are strongly opposed to allowing bankruptcy judges to reduce the balance owed on a mortgage ("cram down") and to rewrite the terms of mortgages. Authorizing write-downs of mortgages by bankruptcy judges will increase the risks of mortgage lending at a time when the market is already struggling, and this will harm consumers by increasing the cost of credit and reducing its availability.

Allowing bankruptcy cram downs will undermine the stabilization effort and will increase costs for taxpayers. Cram downs will make mortgage backed securities even harder to value and sell, and thus will exacerbate the credit crunch in home lending. Further, once a bankruptcy court crams down a mortgage bought by the government, the taxpayer takes an immediate and permanent loss.

Instead of adopting bankruptcy provisions, Congress should work with the Treasury Department to provide flexibility for loan modifications to take place for loans that are purchased by the government. This would provide significant and immediate relief for borrowers.

Sincerely,

American Bankers Association
American Financial Services Association
American Securitization Forum
Consumer Bankers Association
Independent Community Bankers of America
Manufactured Housing Institute
Mortgage Bankers Association
National Association of Home Builders
Securities Industry and Financial Markets Association
The Financial Services Roundtable
The Housing Policy Council
U.S. Chamber of Commerce