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February 23, 2009

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
Washington, DC 20515

The Honorable John Boehner
Republican Leader
U.S. House of Representatives
Washington, DC 20515

Dear Speaker Pelosi and Representative Boehner:

I am writing on behalf of the members of the American Bankers Association (ABA) to express our opposition to overly broad mortgage bankruptcy legislation, such as H.R. 200, which is expected to be considered on the House floor this week as part of a housing bill (H.R. 1106). Specifically, we urge you to remove the bankruptcy language from the underlying bill and consider alternative approaches to address the foreclosure issue.

The housing market is already contracting. Enactment of broad mortgage bankruptcy legislation that authorizes bankruptcy judges to “cram down” the principal of mortgage loans would make things worse by injecting even more risk into the mortgage market, thus making it harder and more costly for people to buy and sell homes. Enactment of broad cram down legislation would increase the losses of mortgage lenders at the worst possible time, and this would undermine efforts by Congress and the Administration to stabilize the housing market.

In announcing the Administration’s proposal to reduce foreclosures, President Obama recognized the danger to the housing market of overly broad cram down legislation. His proposal called for “careful changes to personal bankruptcy provisions so that bankruptcy judges can modify mortgages written in the past few years when families run out of other options.” However, as reported by the Judiciary Committee, H.R. 200 does not contain the President’s recommendations for narrowing the scope of the cram down and limiting its adverse consequences for the housing market.

In addition, H.R. 200 would allow applicants who committed fraud in their mortgage application to take advantage of the cram down. Language that would have prevented this was adopted by the Judiciary Committee but has since been severely weakened, thus creating an opportunity for fraudulent loan applicants to pursue bankruptcy proceedings.

This bankruptcy approach to addressing the foreclosure situation will harm thousands of banks of all sizes across the country that have made, and continue to make, good loans. The bill increases the risks of mortgage lending at a time when the market is already

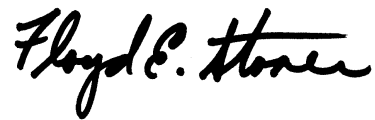
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struggling, and further harms consumers by increasing the cost of credit and reducing its availability. While bankruptcy protection seems to be a simple approach to helping homeowners, it is actually an ad hoc process that can overload the courts with millions of new cases that the system cannot handle quickly or effectively.

We look forward to continuing to work with Congress and the Administration on programs designed to help prevent foreclosures. In the meantime, we strongly urge you not to enact broad bankruptcy cram down legislation that would undermine these efforts, further disrupt the housing market, and make it harder for consumers to buy and sell homes.

Sincerely,

A handwritten signature in black ink that reads "Floyd E. Stoner". The signature is written in a cursive style with a prominent flourish at the end of the name.

Floyd E. Stoner

Cc: Members of the Democratic and Republican Leadership