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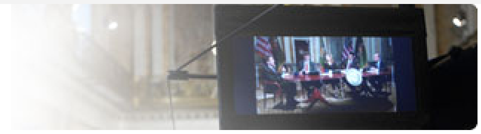

Secretary Paulson’s Remarks on the Economy Before the Real Estate Roundtable

1/30/2008

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U.S. Economy and Fiscal Growth Package

The U.S. economy is undergoing a significant housing correction. That, combined with high energy prices and capital market turmoil caused economic growth to slow rather markedly at the end of 2007, as reflected in the GDP numbers released this morning. I am confident our economy will continue to grow, although not as rapidly as we have seen in recent years.

The U.S. economy is diverse and resilient, and our long-term fundamentals are healthy. Yet, the risks are clearly to the downside and President Bush knows that economic security is of the utmost importance to the American people. We have been tracking economic signals closely for some time now, and are actively engaged with policymakers around the world as we monitor global markets.

In recent weeks, the potential benefits of quick action to support our economy became clear, and the potential costs of doing nothing too great. So, the President asked me to work with Congress to develop a fiscal growth package to minimize the impact on the real economy as we weather this housing correction. At the outset, the President suggested a few principles to use as a foundation for discussion --- that a fiscal growth plan must be enacted quickly; it must be robust, temporary and broad-based, and must get money into our economy quickly. We found common ground with the Congress in those principles, and began intense discussions.

In eight days the Administration and Democratic and Republican House leadership reached agreement. Yesterday, in additional evidence of bipartisan cooperation and commitment, the House passed a bill based on this agreement. For Washington, this is action at the speed of light, and I am optimistic the next few weeks will be equally productive.

The House bill is a balanced, bipartisan compromise that will provide immediate relief for American families and incentives for businesses to invest and hire. If enacted swiftly, the House bill is expected to help create more than half a million jobs by the end of 2008. We know from experience that both immediate tax relief for income tax payers and incentives for businesses to invest and hire are effective in creating growth and jobs in the short-term.

Speaker Pelosi and Minority Leader Boehner have shown discipline and leadership, and the House has set a high standard. Certainly, House members from both sides of the aisle wanted additional provisions added to the bill. But both Leaders kept this effort limited and focused in order to reach agreement. Strong leadership in the House has provided decisive steps towards quick action to boost the economy.

The task now moves to the Senate. Senators, like their House colleagues, know time is of the essence. I think they also understand that a simple package can move quickly, while a complex package can upset the current balance. If the process bogs down, the American people will lose patience and we will also lose the momentum that's absolutely needed for quick action and quick results. House leaders carefully crafted a balanced agreement. They recognized that a simple plan offered the most expedient and effective path. I am confident Senate leaders will see the wisdom of this approach, and I don't believe the Senate has any interest in derailing the cooperation and speed with which Washington has acted so far.

If we keep moving along this fast-track, and within a few weeks Congress sends the President a bill he can sign, rebate payments would start in May. But until the President signs a bill into law and checks are in the mail, I won't say that this short-term effort is complete.

And of course we will continue to press for economic policies which are in our country's long-term best interest --- a pro-growth tax system, entitlement reform and a balanced budget. We are addressing a short-term economic need, and the Administration remains committed to vigorous debate with the Congress over the need for longer-term, structural reforms.

Housing Markets

While a swift, simple and substantive fiscal growth package will provide a boost and add to job creation this year, it is not intended or expected to slow down the housing correction. After years of unsustainable home price appreciation, this is a necessary correction. On Monday, the Commerce Department reported that over the 12 months of 2007, new homes sales dropped 41 percent and new home prices declined by 10.4 percent. Other measures also show roughly flat or falling home prices over the last year. The Administration's focus has been --- and in addition to this fiscal growth plan will continue to be --- aggressive action to try to minimize the impact of the housing downturn on homeowners and the real economy by preventing avoidable foreclosures.

Last fall, we encouraged the creation of the HOPE NOW alliance, a coalition representing over 90 percent of the subprime servicing market and non-profit mortgage counseling organizations, trade associations and investors. This industry-wide effort employs multiple tools to reach and help struggling homeowners, including streamlining subprime borrowers into refinancings and loan modifications to avoid a market failure. And they are doing so without asking American taxpayers to pay the bill.

There are promising developments. According to HOPE NOW, the industry assisted 370,000 homeowners in the second half of 2007, and mortgage servicers modified subprime loans during the fourth quarter at a rate three times faster than in the third quarter. In its first two months, HOPE NOW sent over 480,000 letters to at-risk borrowers who had not reached out for help previously. Servicers estimate that, as a result of the first wave of letters approximately 16 percent, or 77,000 homeowners, have called their servicer or a non-profit counselor to see if foreclosure can be avoided.

We will receive regular progress reports in the coming months. As we learn more, we will look for additional measures to reach more borrowers and prevent as many avoidable foreclosures as possible.

The Administration has also, through FHASecure, expanded affordable mortgage options. Working with Congress, we have increased funding for mortgage counselors who assist struggling homeowners. We have also temporarily eliminated taxes on forgiven mortgage debt. But more action is needed in the housing sector, action that is as important as a short-term fiscal growth plan.

We have urged Congress to move quickly to finalize its work on the FHA modernization bill --- that will provide financing for about 250,000 borrowers. Congress should also allow states to issue tax-exempt bonds to raise funds for innovative refinancing programs.

And it is vitally important that Congress pass GSE reform legislation to enhance regulatory oversight for Fannie Mae and Freddie Mac. The House leaders decided to include a temporary increase in the GSEs' conforming loan limits in the economic growth bill. This could be helpful to jumbo mortgage borrowers; however, higher limits are inconsistent with the GSEs' affordable housing mission. Under the House bill, these higher limits expire at the end of this year, and this should not be an excuse for postponing much-needed reform. The House has already passed GSE reform legislation and Senate Banking Chairman Dodd has assured me that he will take legislation up soon. We will continue to press Congress for this reform and stronger GSE regulatory oversight.

Capital Markets

Predictably, our capital markets are being impacted as we weather the housing correction and uncertainty in the housing sector. Investors' concerns about credit have increased dramatically, and market liquidity has been, in turn, similarly impacted. The plentiful flow of liquidity that fueled the boom in borrowing and leverage across asset classes --- from home mortgages to leveraged buyouts --- has been reduced, with significant consequences.

Short-term funding markets were stressed and inter-bank funding spreads rose to unprecedented levels. Mortgage origination and other asset securitization dropped markedly, adding to the challenges in the housing sector. Given the interconnectedness of our capital markets, other stresses emerged as financial institutions grappled with valuing assets and balance sheets came under pressure.

These developments led to significant actions by major central banks and tremendous financial sector strains. Since August, financial institutions have written off over $153 billion of assets. Numerous issuers and structures have been downgraded and over $136 billion in off-balance sheet assets have been consolidated.

During the past nine weeks, we have also seen some encouraging signs. US financial institutions have raised over $95 billion in new capital. The housing Government Sponsored Entities (GSEs), Freddie Mac and Fannie Mae, have raised equity. A number of our financial institutions have strengthened balance sheets by raising capital from a variety of U.S. and foreign sources.

Our markets are still working through these strains, and certainly your industry has been impacted as well. These events underscore the need for strong market discipline, prudent regulatory policies, and robust risk management. While this transition period is difficult, and will take more time, it is appropriate and reflects a healthy return to fundamentals. I have great confidence in our markets. They have recovered from similar stressful periods in the past, and they will again.

As we work to better understand the causes of the distress in the housing and mortgage markets and the capital market turmoil, some lessons are very clear. For instance, an abundant supply of easy credit and a decline in lending standards were major contributors. Complex and opaque financial instruments and structures, such as the use of conduits and SIVs contributed, as did investor practices and rating agency issues.

Through the President's Working Group on Financial Markets, we are reviewing the underlying policy issues. Our reviews' focus on issues ranging from enhancing risk management, including liquidity and counterparty credit risk, to market infrastructure, to reporting and disclosure, to ratings and investor practices. Working through the current stress is our first concern, getting the long-term policy right is just as important.

We also need to streamline and modernize the patchwork regulatory structure that oversees the mortgage process, provide consumers with clear, understandable mortgage disclosure and bring a higher level of integrity to the mortgage origination process.

Conclusion

I am optimistic that Congress will pass a growth package quickly enough to have a real impact on our economy, to help individuals and families, and to increase business investment now when it is most needed. Our economy is resilient, as are the American people. We will work through this period and share a future of continued opportunity and prosperity.