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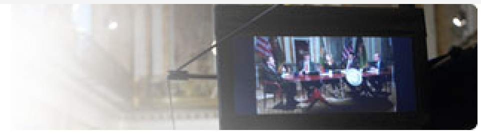

Under Secretary Robert K. Steel Remarks on Housing before the American Securitization Forum

2/5/2008

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Thank you for that kind introduction. And to all of you gathered here this morning, thank you for welcoming me. It is my pleasure to represent the Treasury Department today at this prestigious conference.

This year's fourth annual American Securitization Forum (ASF) conference has brought together some of the nation's best minds from our housing, finance, legal and accounting communities. Your program is excellent and this is an especially important time for experts like yourselves to come together and discuss these issues.

Since its creation in 2001, ASF has served an important role by building consensus and coordinating advocacy efforts among key participants in the securitization market, including issuers, investors, financial intermediaries, rating agencies, legal and accounting firms, trustees, servicers, and guarantors.

The efforts of this organization and each of the member firms you represent are more important now than ever. We commend ASF for the strong leadership you have recently shown in working to address current challenges in the housing and mortgage markets. The Treasury Department has the benefit of a close working relationship with ASF. Much progress has been made by our collaboration and we look forward to seeing the measurements of your success.

You are fortunate to have the strong leadership of George Miller and Tom Deutsch. Both George and Tom have impressive credentials and spent distinguished careers in the securitization market – George served at the Bond Market Association for 11 years prior to joining ASF and Tom worked for respected firms as a specialist in residential mortgage-backed securitization and credit card securitization. Their leadership was demonstrated in December when the ASF announced very important new industry guidelines creating an efficient process for identifying borrowers who qualify for refinancing or loan modifications. But there is much more work to do. I am pleased to be here today with all of you to discuss what more must be done to build off that progress to help homeowners in distress and allow your industry to thrive.

Let me begin my remarks today by providing a bit of perspective about your industry – the securitization market. Then, I will share my thoughts on current conditions in the housing market and the broader economy, and finally will describe our approach to these challenges, the progress we are making and the necessary next steps. After my remarks, if you have the time, it would be my pleasure to take a few questions.

Innovation and Securitization

As you all know firsthand, our capital markets have changed dramatically in recent years. The pace of financial innovation has gathered momentum, and technology and globalization have rapidly changed the nature of financial markets. It is my view that the rate of change in your industry will continue to accelerate.

Globalization and technological developments have led to innovations in financial products and forever changed our economy and the capital markets. As a result, some have suggested the world has flattened. At the very least, today's world has unquestionably become more compressed. And I believe this compression will increase with the passage of time.

Having spent 30 years in the financial services industry prior to joining Treasury, I witnessed considerable innovation in capital markets. When I began my career in the securities industry, technology was an infrequently-discussed skill or asset, thought of only as a processing tool. The capital markets were characterized by a nationalistic perspective and innovative vehicles, such as derivatives, were just beginning to appear. Compare that with today when the skilled technologist is a key actor in the industry, markets are global--operating 24/7 without boundaries, and innovation is a skill required for success.

But it was not until the late 1990s that this change in the industry accelerated to a mesmerizing pace. In my final five years in the financial services industry I saw as much innovation as I saw in my first 25 years.

The securitization market is an example of how this incredible pace of innovation has changed financial markets. Secretary Paulson and I have been very clear – we believe that the benefits of securitization are significant. It enables investors to improve their risk management, achieve better risk adjusted returns and access more liquidity.

While being an advocate for the benefits of your industry, it is also important for me to be straight forward. We must be honest and admit some degree of malfeasance. It is clear that in some instances market participants acted inappropriately. Secretary Paulson has indicated that certain adjustments to the mortgage process, such as licensing standards for mortgage originators, would help in weeding out the bad actors. Common sense licensing standards would take into account prior fraudulent or criminal activity, and should require initial and ongoing education.

Recent market fluctuation has also caused some to question more broadly the effectiveness of certain characteristics of the mortgage market process. This questioning, which is fair and appropriate, has specifically targeted rating agencies, securitization and mortgage origination.

Policymakers and market participants both must commit to a continual assessment of financial innovation and its implications. Secretary Paulson has taken responsibility, by way of the President's Working Group, to evaluate these issues.

The President's Working Group on Financial Markets was formed by President Reagan to study and issue recommendations regarding the market events of October 19, 1987. Since then, the non-partisan Working Group - chaired by the Secretary of the Treasury and composed of the chairmen of three independent financial regulators (the Federal Reserve Board, the Securities and Exchange Commission and the Commodity Futures Trading Commission) - has continued to convene under an overarching mission of maintaining investor confidence and enhancing the integrity, efficiency, orderliness and competitiveness of U.S. financial markets.

Secretary Paulson is leading the President's Working Group to evaluate broad, long-term lessons-learned from current challenges, and where appropriate make recommendations. Securitization can remain a strong market in the future, but market participants must accept some degree of responsibility and commit to lessons-learned.

Housing Market Challenges

As I have just described, challenges in the markets are having significant consequences. What began as a credit issue last summer, raised questions about market liquidity in the autumn, and today is causing uncertainty about the economy.

The flow of liquidity that fueled a boom in borrowing and leverage across asset classes – from mortgages to leveraged buyouts – has now been reduced. 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.

Of course, housing has been at the center of all these challenges. Housing corrections take time and we are currently experiencing a period of adjustment in the housing sector of our economy. After years of unsustainable home price appreciation and relaxed lending practices, a housing correction was inevitable and necessary.

Our economy is resilient and fundamentally strong, but the housing correction, credit market turmoil, and high oil prices are weighing on growth this year and short-term risks are to the downside. We at Treasury expect that our economy will continue to grow over the coming year, but at a slower rate than we have enjoyed for the past few years.

However, there is the risk of a downturn. And to address this short-term challenge, President Bush announced a bipartisan agreement with House of Representatives on a growth package to bolster the economy this year. The proposal will provide about $150 billion of tax relief for the economy, leading to the creation of over half a million additional jobs by the end of this year. The Administration and the American people await action in the Senate to produce a targeted package to send to the President. By passing this economic growth agreement quickly, we can protect the strength of our economy as we weather the housing downturn and other challenges.

The housing downturn, of course, is about more than just economic statistics – it is also about the firsthand strain that families and homeowners will experience. Too many American homeowners face the frightening prospect of losing their home in foreclosure – and a significant number of other families already have. Foreclosures also impose negative externalities on neighboring homes and communities. Many homeowners who are paying their mortgages on time face lower property values due to foreclosures in their neighborhood. This places hardships on neighboring homes and undermines the financial stability of broader communities and the families who live there.

The latest available data (from the third quarter of last year) indicate that 2007 was on track for a foreclosure starts rate of 2.7 percent. To give that number a bit of perspective we should recognize that many homes end up in foreclosure every year, even when housing markets are strong. Between 2001 and 2005, for example, the U.S. annual rate of foreclosure starts averaged approximately 1.7 percent, meaning more than 650,000 homeowners began the foreclosure process each year. This baseline rate of foreclosure can result from events such as job loss, credit problems, changes in family circumstances, or other sources of economic instability.

Recently, some have made comparisons between the rate of foreclosure starts and the rate of modifications. There is no question we want and expect the rate of modifications to increase. However, we must not ignore refinancings. Every time a homeowner refinances into a long-term sustainable mortgage that is a win for both the homeowner and the original investor.

We expect the foreclosure rate to remain elevated this year and next. A rising foreclosure rate during a period of housing price depreciation is not surprising. Yet, largely because of relaxed underwriting standards in recent years – particularly in the subprime market – and because of resetting mortgages, the number of homeowners facing hardship will be higher than during other recent housing downturns.

In total, approximately 1.8 million subprime mortgages are expected to reset over the next two years, but not all will end in foreclosure. Many homeowners will be able to afford their new payments without trouble or will be able to qualify for refinanced, fixed-rate mortgages on their own. In fact, of the 2/28 subprime ARMs originated in 2005, 88 percent had not defaulted as of late last year. Others, however, have stretched far beyond their means, and unfortunately, foreclosure may be unavoidable. In fact, many loans enter into foreclosure before ever reaching the reset date. A third group of homeowners facing resets fall somewhere in the middle. The challenge is to identify the homeowners in this middle group, who with a focused and timely response can stay in their homes.

The Policy Response

After working closely with ASF and other members of the industry, Secretary Paulson has determined that the best response is based upon a three point plan: (1) to better identify, reach and connect with servicers and counselors at-risk homeowners who can be helped, (2) to assist in developing additional products for homeowners, and (3) to increase the speed and efficiency of moving these at-risk borrowers into affordable solutions.

Whenever facing a challenging public policy issue, such as this one, the first step is full understanding. While we are continuing to learn, our response to date represents months of listening to leading academics, servicers, mortgage counselors, lenders, homeowners, consumer advocates and investors to understand the causes of foreclosure and the best ways to help people keep their homes.

On August 31, President Bush announced an aggressive, comprehensive plan to help at-risk homeowners remain in their primary residences. The President charged Secretaries Jackson and Paulson to lead this effort.

As the Treasury Department and the Department of Housing and Urban Development (HUD) met with a variety of mortgage market participants and non-profit credit counselors in the late summer and early fall of 2007, it became clear that while many market participants were working diligently on their own trying to reach and help homeowners, it was inadequate given the scale and pace of pending resets.

On October 10, HOPE NOW was formed as an alliance among counselors, servicers, investors, and other mortgage market participants to maximize outreach efforts to at-risk homeowners and help them remain in their homes. The Alliance grew and today servicers participating in HOPE NOW comprise over 94 percent of the subprime mortgage loan market. Since its formation, ASF has been a true leader in HOPE NOW, ensuring that securitization market participants - especially investors - were helping craft solutions that would help homeowners without undermining the flow of capital.

On December 6, President Bush announced a new private-sector framework to streamline the process for modifying and refinancing subprime mortgages for eligible homeowners. These new industry guidelines, issued by your organization, created an efficient process for identifying borrowers who qualify for refinancing or for loan modifications. This, in turn, would free up resources and allow mortgage servicers to focus on those borrowers who require more in-depth analysis. It is now up to the industry, including the people in this room today, to help put this plan into action.

Early Progress: August 30th vs. Today

Early results of these efforts are coming in and we are encouraged by the progress being made.

On August 30, before the President's plan was in place, there was no widely-promoted national contact point for foreclosure prevention counseling. Today, HOPE NOW has adopted the Hope hotline (888-995-HOPE) as a centralized source of foreclosure counseling. HOPE NOW has expanded the capacity of the HOPE hotline so that it can sustain the increased call volume from nationwide outreach efforts. Since August, they have added hundreds of trained counselors who are ready and able to help borrowers who reach out through the hotline.

In August, the hotline was receiving an average of 625 phone calls a day. Today, the HOPE hotline is receiving 4,000 new phone calls a day, a five fold increase.

In August, funding for hotline counselors came from government and foundation sources only – the traditional sources of counselor support. Today, servicers and investors now reimburse HOPE hotline counselors $100 for every counseling session completed. This is an important step toward maintaining a sustainable funding model.

In August, there was no coordinated outreach effort to contact at-risk borrowers. Today, HOPE NOW members are reaching out to all at-risk borrowers and offering help through both mortgage servicers and non-profit credit counselors. A direct mail campaign began in November to contact all borrowers who are 60 days or more delinquent on their loans with no prior servicer contact. This letter informs them that help is available.

In the first two months, HOPE NOW and its members have mailed 483,000 letters to delinquent homeowners. After receiving these letters an estimated 77,000 borrowers called for help – again none of these borrowers had previously spoken to their servicer or responded to attempts to contact them.

In August, before the President's plan was in place, only some servicers were contacting borrowers early to alert them of a reset in their interest rates. Today, all HOPE NOW servicers are contacting all subprime mortgage borrowers at least 120 days prior to their mortgage reset. This will allow for early identification of borrowers who will have challenges – greatly increasing their options for help.

In August, before the President's plan was in place, the Federal Housing Administration (FHA) had limited flexibility to help families who had already run into trouble stay in their homes. Today, a new program - FHASecure – is in place offering refinancing options to homeowners who were making payments on time prior to an interest rate reset but have missed payments because of the reset. Since August, the FHA has helped over 75,000 families and it is estimated that about 100,000 more applications are in the pipeline.

In August, state housing agencies were authorized to issue tax-exempt bonds to fund housing purchases for only first-time homeowners. Today, the Administration has proposed not only to expand significantly the cap on bond issuance by $15 billion over three years, but also to allow these tax-exempt bonds to fund refinancings of existing homeowners.

In August, before the President's plan was in place, when servicers helped borrowers by writing down loan principal, homeowners owed taxes on that write-down. Today, after the Congress passed the Administration's mortgage forgiveness proposal, homeowners will avoid roughly $200 million a year in taxes that would have otherwise been due from principal forgiveness for the next three years.

In August, servicers seeking to address the upcoming wave of hybrid adjustable-rate mortgage resets and considering possible loan modifications were forced to deal with borrowers in a time-consuming, costly, case-by-case process. Today, as HOPE NOW servicers have begun to adopt the ASF's fast-track modification framework, the industry is able to act quickly in modifying the loans of those borrowers who faithfully have paid their mortgage but will not be able to afford the rate reset or qualify for refinancing. In doing so, not only are servicers now able to help many more borrowers much more quickly, but also are able to maximize cash flows for investors. This also frees up valuable time and resources for servicers to help other borrowers on a case-by-case basis.

As we have already noted, President Bush and Secretary Paulson are anxiously awaiting results of the ASF fast-track framework for subprime loan modifications. Even before the framework was announced, the rate of modifications began to climb. In the fourth quarter, after the launch of HOPE NOW, the rate of subprime loan modifications tripled from the rate in the third quarter. We expect your industry to hold to its commitment to help more homeowners, faster, by using the ASF framework, and we look forward to seeing the measurements of your success.

Conclusion

Despite many signs of economic strength, high energy prices, contracting credit conditions and the housing downturn pose headwinds to the economy. We accept the reality that a housing correction was in order; however our public policy goal is to limit the negative impact of that correction.

Meeting this goal will require continued help from your industry. By working to keep at-risk borrowers in their homes, we can help minimize the negative externalities caused by foreclosures. When a person is delinquent on his or her credit card payment that only affects the borrower and the lender, but when one loses a home to foreclosure, it impacts neighborhoods, communities and eventually the broader economy.

Our policy response is focused on avoiding preventable foreclosures. Among the tools we have enlisted are some preexisting programs, such as the Federal Housing Administration. But we are also looking to new, innovative tools, such as the ASF framework.

Early data indicate that progress is being made, but your industry must move even faster. Each additional day it takes to fully implement these tools, including the ASF framework, we are missing homeowners who could have been helped. We are monitoring servicers closely and expect all to report results of their efforts into HOPE NOW on a monthly basis.

Let me again express my appreciation for the strong leadership ASF has taken in working with their members and with the public sector to develop tools to help mitigate current challenges. These issues are complex and we will continue to learn as we move forward. We will look for additional tools to help prevent avoidable foreclosures.

Thank you. I will now take a few questions.

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