U.S. DEPARTMENT OF THE TREASURY

Press Center

Secretary Paulson Prepared Remarks Before the Housing Townhall Meeting at the East Orange Community Center

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Good afternoon. Thank you, Congressman Feeney and thanks to all of you for joining me to discuss the current housing market.

After years of unsustainable home price appreciation and an abundant supply of easy credit, the U.S. housing market is experiencing an inevitable downturn. Here in Orlando, house prices increased by an average of over 15 percent a year from 2001 to mid-2006. Now, that trend has reversed and house prices declined 7 percent in the last year. Your city has been particularly hard-hit by foreclosures.

Although the housing market downturn is a significant challenge, homeownership remains a vital and positive aspect of American life --- 68 percent of American households own their own home and 93 percent of Americans pay their mortgages every month, right on time.

We do expect that the housing market turbulence will take some time to work through, and that there will be some penalty on our short-term economic growth. Fortunately, the economic picture in Orlando is relatively strong: you have a healthy job market, with an unemployment rate over one percentage point below the national average.

Overall, the U.S. economy will continue to grow and is fundamentally sound. Core inflation is contained, continued job gains are providing a good foundation for household spending, corporate balance sheets remain healthy overall, and strong growth abroad is supporting U.S. exports. Our economy is operating against the backdrop of a strong global economy.

We want, when possible, to minimize the housing market downturn's impact on the national economy, Florida's economy and cities like Orlando. A spike in home foreclosures can pose costs for whole neighborhoods, causing property values to decline and crime to increase. This can undermine the financial stability of neighboring families and communities.

Foreclosure isn't only expensive for homeowners. Investors – the owners of the mortgage – also get hit with steep losses. Investors would rather find a solution other than foreclosure, if there is one.

In any normal business situation where both sides see that they are going to suffer losses, they would get together and strike a deal to minimize those losses. But this situation isn't normal; the company that made your mortgage may no longer hold it. Instead, mortgage investors are spread all over the world, making it very difficult for them to reach an individual decision on each troubled mortgage.

Until recently, our system has been able to shoulder the burden of this complexity because the volume of struggling borrowers was manageable in a period when home prices were generally increasing. But today, there are a rising number of subprime borrowers who will face a problem when their mortgage interest rate resets and their monthly payments increase. We anticipate that 1.8 million owner-occupied subprime mortgage resets will occur in 2008 and 2009. This rising volume makes it impossible for the investors who own the mortgages to deal with them in the usual way.

The government acted to prevent a market failure and to try to avoid unnecessary harm that would result from a cumbersome, difficult decision-making process due to a coming wave of struggling subprime borrowers. We developed a solution that involves no government funding or subsidies for industry or homeowners.

Our solution centers on bringing mortgage market participants together in the HOPE NOW alliance. The alliance is a coalition of mortgage servicers - the people who collect your payments - counselors and investors that are working to avoid preventable foreclosures.

As I see it, subprime borrowers fall into three broad categories. There are those who can afford their adjusted interest rate; these homeowners need no assistance. There are homeowners who haven't even been making payments at the loan's starter rate and may not have the financial wherewithal to sustain home ownership; some of these homeowners will become renters again.

A third category is homeowners with steady incomes and relatively clean payment histories who cannot afford the higher adjusted rate. These are the homeowners we need to see fast-tracked into a modification or refinancing.

Through the HOPE NOW alliance we are focusing on this third group, determining who they are and what steps may appropriately assist them. With HOPE NOW, we announced a three point plan to aggressively help as many able homeowners as possible keep their homes.

First, we are increasing efforts to reach able homeowners who are struggling with their mortgages. We learned that 50 percent of foreclosures occur without borrowers ever asking for help. Many borrowers in trouble are afraid to speak to their lenders. But we know that the sooner a struggling borrower reaches out to address the problem, the more likely it's possible that it can be resolved. Nothing is worse than doing nothing.

HOPE NOW is sending outreach letters to borrowers likely to be facing trouble, and has expanded a toll-free number where concerned homeowners can talk to mortgage counselors about their financial circumstances.

Second, we are working to increase the availability of affordable mortgage solutions for these borrowers. The industry is developing modifications and other mortgage products that may allow more people to stay in their homes. HUD has implemented FHASecure, which is already refinancing more homeowners into FHA mortgages. I am very hopeful that Congress will pass a final version of an FHA modernization bill, so more borrowers will have the option of an affordable FHA mortgage.

Third, we have led the industry to develop a systematic means of efficiently moving able homeowners into sustainable mortgages. The industry came together and developed straight-forward criteria to allow them to quickly identify borrowers who can't afford their mortgage reset, but have the financial wherewithal to continue to own their home. For the mortgages in this group, both the borrower and the investor are better off if foreclosure is avoided. The industry announced two weeks ago that they will now be able to fast-track these borrowers into mortgage modifications --- which will result in a 5-year interest rate freeze for some mortgage holders.

This effort is not an across-the-board mortgage payment freeze. There are many subprime borrowers who will be able to afford their higher mortgage payments, so they don't need help. Others will not be eligible for fast-tracking, but will go through a longer process to demonstrate that they can't afford the mortgage reset. And, of course, some may not be able to afford any reasonable mortgage modification.

The fast-tracking of a significant portion of these subprime borrowers into a refinance or a modification frees up resources so that lenders can work with other borrowers. We are working to prevent a market failure by avoiding foreclosures that otherwise would occur just because someone wasn't reached in time or the system could not respond quickly enough to produce an outcome in the best interest of the homeowners and the investors who own the mortgages.

And let me say to all of you here today – that if you, a friend or family member is worried about losing their home, please call the HOPE NOW hotline or your mortgage servicer immediately.

Our plan won't prevent every foreclosure, and modification will be available only when it's a financially feasible and necessary solution. The industry has committed to reporting results of this effort, and we will measure our success by number of foreclosures prevented, not the number of mortgages modified.

This plan is neither a silver bullet, nor is it perfect, but it is the best way to deal with the unprecedented volumes that threatened to overwhelm the normal functioning of this market.

We can, and will, monitor the situation closely and do our best to address issues as they arise.