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12-6-2007

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Henry M. Paulson Jr.

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U.S. DEPARTMENT OF THE TREASURY

Press Center

Statement by Secretary Henry M. Paulson, Jr. at Press Conference to Announce Framework to Help Preserve Communities by Preventing Foreclosure

12/6/2007

Washington, DC -- Good afternoon. Thank you, Secretary Jackson, Chairman Bair, Comptroller Dugan, Governor Kroszner, Director Lockhart, Director Reich and representatives from the American Securitization Forum, HOPE NOW, the Mortgage Bankers Association and the Housing Policy Council for your creativity and flexibility during these recent months. We have worked through an evolving process to help minimize the impact of the housing downturn on homeowners, neighborhoods and the U.S. economy.

The infrastructure to reach struggling borrowers is now in place: outreach letters are being sent to borrowers likely to be facing trouble, a toll-free number has been expanded and there are counselors available to work with struggling borrowers.

The American Securitization Forum represents mortgage investors and mortgage servicers, and they have announced today a set of guidelines to streamline the process of refinancing and modifying subprime loans for able homeowners. We hope that these guidelines will be adopted as reasonable and customary standard practice across the entire servicing industry.

This is a private sector effort, involving no government money; so some may ask "Why are these government officials here today?" We are here because we all know that it is in everyone's interest – homeowner, servicer, investor – to develop a market-based approach to avoid foreclosures that are preventable. And the current system for working out those problem loans would not be sufficient to handle the anticipated 1.8 million owner-occupied subprime mortgage resets that will occur in 2008 and 2009. The investors who own these loans recognize that foreclosure is costly, and that a workout plan or mortgage modification often brings them greater value than foreclosure. But the standard loan-by-loan evaluation process that is current industry practice would not be able to handle the volume of work that will be required. Instead, the industry needed a streamlined approach to address this increased volume.

The complexity that exists in current mortgage and mortgage securities markets poses some very practical and difficult problems. The vast majority of mortgage servicers are collecting homeowners' payments on behalf of investors scattered around the world. While each of these participants has an interest in avoiding preventable foreclosures, they are not equipped to handle the anticipated volume on their own. I saw a role for government here – to convene market participants with common interests to determine if, and then how, they could develop a shared framework to address both the market complexity and the upcoming volume of mortgage resets.

The industry standards announced today do not change the nature of the responsibilities in the servicing industry – servicers will continue to modify loans when it is in the best interests of the investors. Indeed, these industry standards announced today are the product of discussions among investors and servicers.

With the investor community on board and as a clear beneficiary of this approach, the risk of litigation should be manageable. Therefore, I expect servicers across the industry to pursue this streamlined approach.

The HOPE NOW alliance represents servicers who cover 84% of currently outstanding subprime mortgages. HOPE NOW estimates that under this streamlined approach up to 1.2 million subprime ARM borrowers will be eligible for fast-tracking into consideration for affordable refinanced or modified mortgages. Servicers have committed to reporting progress, and we all look forward to transparent and monthly reports on the results of these efforts.

We owe thanks to the mortgage investors who have stepped up and enabled servicers to streamline the modification and refinancing process. Streamlining will free-up resources so servicers can better focus on borrowers whose situations require more in-depth review. Thank you, also, to the HOPE NOW members for significantly increasing resources to identify, contact and counsel struggling homeowners.

Additional thanks to the regulators who are here today. They regulate mortgage lending, servicing and investing institutions, so they see this issue from all perspectives. Their support for this effort is much appreciated by all participants.

The approach announced today is not a silver bullet. We face a difficult problem for which there is no perfect solution.

Today's announcement is a significant step. I know that everyone here has worked very hard since August, and we will continue working. As events unfold, our approach will continue to adapt and evolve.

Now, Secretary Jackson will make a few remarks.

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