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Opening Statement Prepared for Delivery by Treasury Secretary Henry M. Paulson, Jr. on the Economy and Financial Markets

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Before the Senate Committee on Banking, Housing and Urban Affairs

Washington- Chairman Dodd, Senator Shelby, Members of the Committee: Thank you for the opportunity to be here today. I am pleased to appear with my colleagues Chairman Bernanke and Chairman Cox. I appreciate their leadership on the challenges confronting our economy and capital markets, and look forward to continued close, productive working relationships.

The U.S. economy is fundamentally strong, diverse and resilient, yet after years of unsustainable home price appreciation, our economy is undergoing a significant and necessary housing correction. The housing correction, high energy prices and capital market turmoil are weighing on current economic growth. I believe that our economy will continue to grow, although its pace in coming quarters will be slower than what we have seen in recent years.

Four weeks ago, recognizing the downside risks to our economy and that the short-term cost of doing nothing was too high, President Bush called for an economic growth package to provide a temporary boost to our economy as we weather the housing correction.

The Congress responded with bipartisanship, cooperation and speed to pass an economic growth package that is temporary, broad-based and will assist our economy quickly. We have demonstrated to the nation and the world that we can come together to address the needs of the American people as we weather the housing downturn.

Yesterday, the President signed the economic package into law and Treasury is already working to send payments out to more than 130 million American households.

The IRS will manage the current tax filing season and simultaneously prepare to issue these additional payments starting in early May. Payments will be largely completed this summer, putting cash in the hands of millions of Americans at a time when our economy is experiencing slower growth. Together, the payments to individuals and the investment incentives for businesses will help create more than half a million jobs by the end of this year.

In addition to this growth plan, the Administration will continue to focus on aggressive action to try to provide alternative options to foreclosures. This includes encouraging 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 able subprime borrowers into re-financings and loan modifications.

The HOPE NOW effort is making progress. According to updated statistics, in the second half of 2007 the industry assisted 869,000 homeowners, including 545,000 subprime borrowers who received loan modifications and repayment plans. The progress rate is accelerating; the number of subprime modifications in the fourth quarter doubled over the rate in the third quarter. In Q4 alone, of the estimated 1.5 million homeowners of all types delinquent 60 or more days, over 470,000 received help from their servicer and almost 30 percent of those received a loan modification.

I expect that this progress will accelerate in 2008. In January, the industry began implementing a new framework to streamline mortgage modifications for able but struggling subprime borrowers. As announced by the American Securitization Forum, this framework will greatly speed the financial evaluation process – borrowers who have made their initial payments but cannot afford the interest rate reset may be fast-tracked for modification or re-finance, allowing mortgage counselors and servicers to devote time and resources to the more difficult cases.
Currently, I am focusing on two aspects of this effort: first, on ensuring that the ASF framework is adopted throughout the industry, so that the industry is better prepared to deal with the rising volume of subprime mortgage resets; and second, on ensuring that the HOPE NOW alliance produces timely metrics so that policy makers and industry participants can evaluate progress and make adjustments as needed.

I appreciate this Committee's leadership and specific efforts to address issues that have arisen during the housing downturn. Finalizing the FHA modernization bill will provide additional tools to help homeowners and I encourage you and the House to reach consensus as soon as possible. Enactment of GSE regulatory reform is also a very high priority for Treasury and the Administration, and I commend the chairman and committee members for your willingness to move forward promptly. While not under this committee's jurisdiction, the Administration has also proposed legislation that will allow states to issue tax-exempt bonds for innovative refinancing programs. This tax proposal is in addition to that signed into law in December, which provides temporary tax relief for homeowners facing increased taxes due to forgiven mortgage debt. All of these initiatives may help mitigate the housing headwinds, and we remain open to other good ideas as we move forward.

Treasury continues to monitor capital markets closely and to advocate strong market discipline and robust risk management. While we are in a difficult transition period as markets reassess and re-price risk, I have confidence in our markets. They have recovered from stressful periods in the past, and they will do so again.

Working through the current stress is our first concern. Through the President's Working Group on Financial Markets, we are also reviewing underlying issues ranging from enhancing risk management to market infrastructure, to reporting and disclosure, to ratings and investor practices. We know a short-term boost to our economy is needed. We also know that it is just as important to get the long-term policy response right.

Thank you and I am pleased to take your questions.

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