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Henry Paulson
Secretary of the
Treasury
[Biography](#)

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December 7, 2007

Henry Paulson

Thank you all for writing in today. We've been hard at work over the past few months to develop ways to prevent some struggling homeowners from losing their homes. Many of you saw the announcement made yesterday to streamline the process of refinancing and modifying subprime loans for able homeowners – I look forward to answering your questions on that. But let me stress here at the outset, the approach announced yesterday is not a silver bullet. It is one piece of a plan President Bush has directed his Administration to pursue. We face a difficult problem and there is no perfect solution. But we will continue to work on this in an effort to preserve communities by preventing foreclosures.

Stephen, from Ann Arbor, MI writes:

I am a loan originator who has written ARMS. How will I know if my clients are going to have their rates frozen, so that I may answer my clients' questions?

Henry Paulson

The best thing you can tell your clients to do is to call their mortgage servicer or call 1-888-995-HOPE to reach a mortgage counselor to find out if they are eligible for assistance. And be sure to tell your clients that the earlier they call, the more likely they can find an affordable mortgage solution.

No one can be helped if they don't reach out and ask. The single most important thing is to make sure people know that if they are facing a mortgage reset they are worried they can't afford, they need to call for information and assistance before they fall behind on their payments.

Adam, from Washington, DC writes:

Is the Treasury taking any measures to promote financial literacy in our schools? It seems like an important issue to address.

Henry Paulson

I absolutely agree Adam. Treasury has an office dedicated to financial education that works closely with schools around the nation to integrate financial education into the curriculum at all levels. The Office also works to promote access to the financial education tools that can help Americans of all ages make wiser choices in several areas of personal financial management, with a special emphasis on saving, credit management, homeownership and retirement planning. As President Bush has said, unless we have a financially literate society, not enough people are going to be able realize the great promise of America.

U.S. Treasurer Anna Escobedo Cabral focuses on this important issue, and continues to dedicate her time toward empowering people with the resources they need to help them manage their money more effectively. Treasurer Cabral has visited schools throughout the country to educate our nation's youth on the importance of developing good savings habits early. You can find more information at MyMoney.gov – that is the U.S. government's website dedicated to teaching the basics about financial education. This page in particular is dedicated to homeownership. <http://www.mymoney.gov/homeownership.shtml>

We always say more financial education is better than none. This is a task we cannot accomplish alone. That is why we collaborate with the private sector and community based organizations. We will continue to

work with our many partners to enhance our country's overall level of financial literacy.

Alan, from Arizona writes:

Mr. Paulson Do you anticipate bank failures like England saw with Northern Rock?

Henry Paulson

Alan – I'm glad you asked this. The U.S. banking system is thoroughly regulated and well capitalized. We have a strong deposit insurance system that provides good coverage for the savings of hard-working Americans. Another thing to remember as we work through this mortgage market turmoil is that we're confronting these challenges against the backdrop of a strong global economy and a fundamentally healthy U.S. economy. Business investment has expanded in recent months, our exports are being boosted by the strong economic growth of our trading partners and the healthy job market has helped consumer spending continue to grow. But I have also been very clear that the housing decline is still unfolding, and I view it as the most significant current risk to our economy.

<http://www.fdic.gov/deposit/index.html>

Randall, from Kearney, Ne writes:

Why are we responsible for bailing out the ARM lenders, or if you insist, the borrowers that were fully informed of the consequences of an Adjustable Rate Mortgage? This is for the benefit of lenders, isn't it?

Henry Paulson

Let me say first, this is not a bail-out – there is no federal money involved in what was announced yesterday. It's a private-sector led initiative that is to the benefit of everyone – the families who face losing their homes, the neighborhoods and communities they live in, as well as mortgage servicers and mortgage investors. Foreclosure is to no one's benefit. I've heard estimates that mortgage investors lose 40-50 percent on their investment if it goes into foreclosure.

Because everyone loses in foreclosure, the industry – lenders and investors – already has a process for working with struggling borrowers to avoid foreclosure whenever there is a better option for everyone. What we announced yesterday is simply a streamlining of this process.

There are 1.8 million owner-occupied subprime ARMs expected to reset in 2008 and 2009. The combination of lax underwriting standards when these loans were originated followed by stagnant or declining home values in the last two years means we expect a dramatic increase in the number of borrowers who are likely to find these mortgage resets unaffordable. The standard loan-by-loan process for working with struggling borrowers would not be able to handle the volume of work that will require. The industry needs a systematic approach, in order to cope with increased volume over the next few years, and we applauded them yesterday for putting forward just such a streamlined approach.

And let me be clear – we will not avoid all foreclosures. Borrowers who are struggling even with the lower initial ARM rate are unlikely to be eligible for assistance, and likely will become renters again. We worked with the industry to create a streamlined process so that those for whom there is a better solution don't end up in foreclosure simply because the system was too overwhelmed to assist them in time.

Michele, from Maryland writes:

As someone who would probably benefit from President's Bush's plan for subprime homeowners, will I need to do anything specific in order to qualify or be included in the plan. I do currently make all mortgage payments on time, but know that within a year I will face the challenges that others have been facing. Thank you.

Henry Paulson

Michele – the first thing you should do is reach out and speak with your mortgage servicer – the company you send a check to every month. You should be able to find the phone number on your payment coupon

book or in the original loan documentation. The sooner you explore financial options, the more likely that you will be able to find an affordable mortgage solution. Many good counseling services are also available to

provide guidance. The Department of Housing and Urban Development has a list of approved counselors on their website. You can also reach a mortgage counselor by calling 1-888-995-HOPE.

<http://www.fha.gov/sf/counseling/index.cfm>

Sam, from Gaithersburg, MD writes:

How will the administration's plan to fix interest rates for five years affect investors? Will they continue to receive the interest income they expected during this time and, if so, how? Aren't you concerned that if investors are forced into a rewriting of their investment agreements that you will cause many investors to forego future investments in mortgage-backed securities or home loans?

Henry Paulson

I think it's important to note here that what was announced yesterday was spear-headed by a trade association that represents investors, the American Securitization Forum (ASF). ASF worked on these new guidelines because it is in fact in the best interest of the investors to avoid preventable foreclosures; investors know how expensive foreclosures are. They know that if a borrower can afford the starter rate but not the reset rate, a modification is less costly to them than foreclosure. Investors have been at the table to help develop this plan from the beginning.

The plan announced yesterday does not change the fundamentals of the contract between servicers and investors. Servicers have always been charged with collecting payments on behalf of investors, and when a borrower falls behind in his payments, working with the borrower to reach an outcome is in the best interest of the mortgage investors. Whenever a mortgage is modified or foreclosed, that changes the payments to investors – that is the nature of the investment. This streamlined plan announced yesterday continues that relationship between investors and servicers, it gives servicers an additional tool to identify when a streamlined refinance or modification is in the best interest of the mortgage investors.

Kim, from Minnesota writes:

Hi. My husband Chris and I are going through a foreclosure, which the sale is December 21, 2007 at the Sheriff's office where we live. I am wanting to know what kind of relief the government is going to give me when it comes time to file our taxes for 2007. I feel we are getting a double edged sword first by losing our home and then also having to pay penalties due to a cancellation of debt. We are honest working American citizens who are trying to raise 4 children and just had to move into my parent's home for the winter because we just can not make it. We have tried working with our mortgage company but they were just not able to help us and our poor credit history has not allowed us to refinance to keep our home.

Henry Paulson

Kim I agree with you – you've been through a difficult event, and the last thing you need is a tax bill in addition to everything else you are going through. When your home is losing value and your family is under financial stress, getting hit with higher taxes is not helpful. In many cases, there is relief available. The IRS can help you determine whether you are eligible – call the IRS's toll free number for taxpayer assistance at 1-800-829-1040. In order to make sure that all taxpayers are afforded this relief during these difficult times President Bush has called on Congress to temporarily reform this provision of the federal tax code. The House of Representatives has passed this provision, and I'm hopeful it will be passed by the Senate so the President can sign it into law before the end of the year.

Jason, from California writes:

Mr. Paulson: Will there be a income limit put on the assistance program? In other words, can a family make too much money to qualify?

Thank you.

Jason from California

Henry Paulson

Jason – There are several factors that come into play, and the best way to get an answer is to talk with a

mortgage counselor or your mortgage servicer. Home prices are very different across the nation; I know they are particularly high in California.

Nationwide, we know that approximately 1.8 million owner-occupied subprime adjustable rate mortgages will reset in 2008 and 2009. Of those, approximately 1.2 million homeowners could qualify to be fast tracked into consideration for a refinanced or modified mortgage. A borrower expecting to have trouble with a mortgage reset needs to call their servicer or a mortgage counselor to find out if they qualify.

Michael, from Cleveland, OH writes:

How were you able to protect this plan from the inevitable lawsuits that could follow. We need to move fast with any solution and any sort of legal scuffle could de-rail this effort. I applaud the idea, despite being unsure of what "unintended" consequences may surface in the future.

Henry Paulson

Well Michael, this is America, so we know there is always the risk of litigation. But we need to remember that the job of mortgage servicers is to manage loans in the best interests of all the investors in the mortgage pool. Under these industry standards, the servicer would only do a modification where it is in the best interests of the investors. Indeed, these industry standards are the product of discussions among investors and servicers. With the investor community on board and the clear beneficiaries of this plan, the risk of litigation should be manageable.

Henry Paulson

The Administration is taking action to help homeowners, and I've called on Congress to do the same before they leave for the year. They need to pass the President's FHA modernization proposal which, by lowering the down payment requirement, increasing the loan limit and allowing risk-based pricing, will make affordable FHA loans more widely available. This would help refinance another estimated 200,000 families into affordable FHA-insured loans. President Bush has also called on Congress to provide tax relief for mortgage debt forgiven; to create a strong, independent regulator for Fannie Mae and Freddie Mac; and to allow state and local governments to temporarily broaden their tax-exempt bond programs to include mortgage refinancings so that they can reach more struggling homeowners.

The problems we are facing are complex. There is no single solution to address all of the issues currently affecting the mortgage market. But the plan announced yesterday is a positive step, and an infrastructure to reach struggling borrowers is now in place.

Thank you to everyone who submitted questions today – I really appreciate this opportunity to answer some of them.

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