



The Administration's Housing Strategy and Economic Update

Neel Kashkari

Senior Advisor to the Secretary

Phillip Swagel

Assistant Secretary for Economic Policy

Department of the Treasury
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Agenda

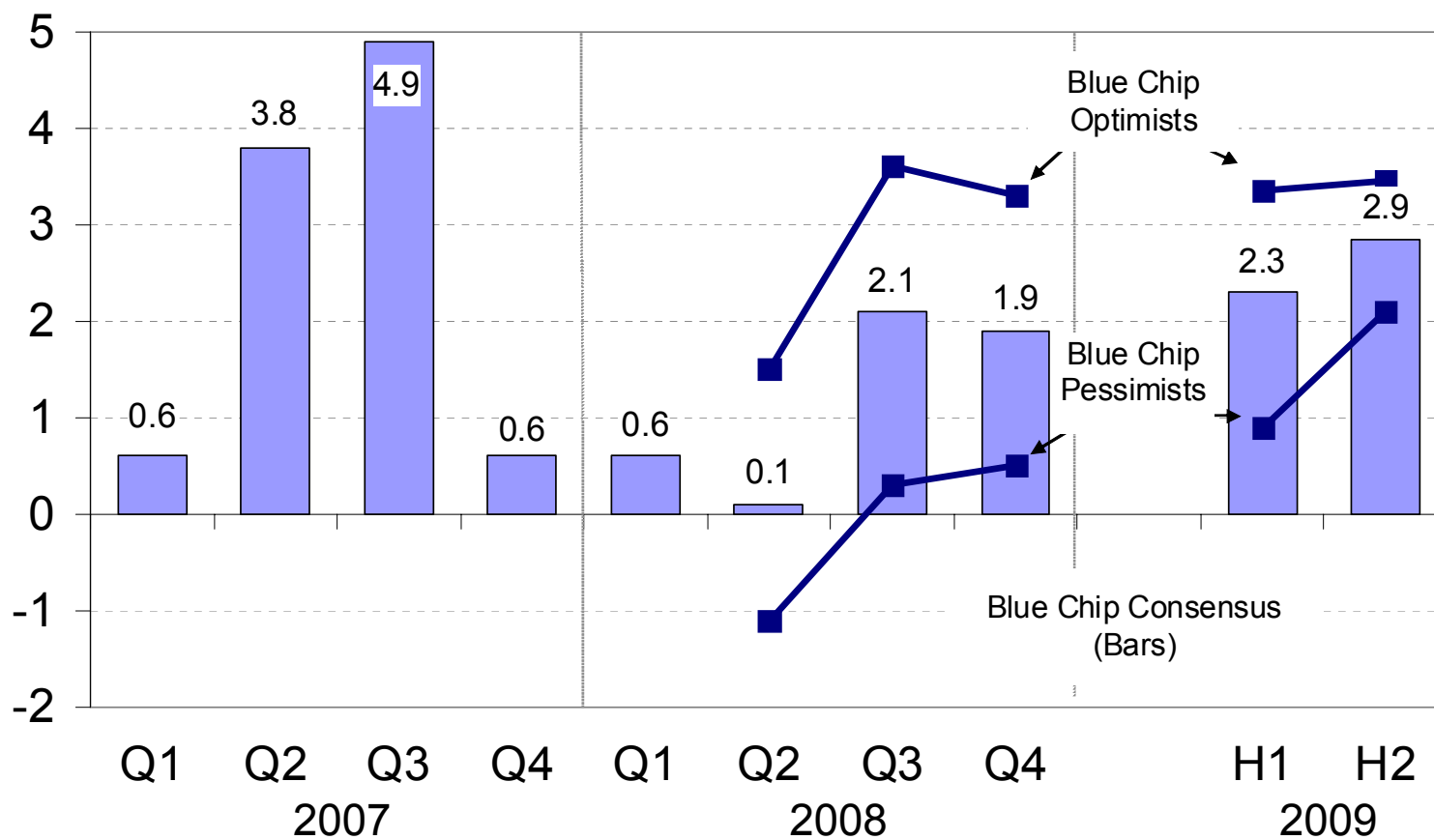
- Macro overview
- Housing market run-up
- The foreclosure problem
- The Administration's plan to deal with it
- Measuring results
- Looking forward
- Discussion



Slowdown and Recovery

Blue Chip Scenario for GDP Growth

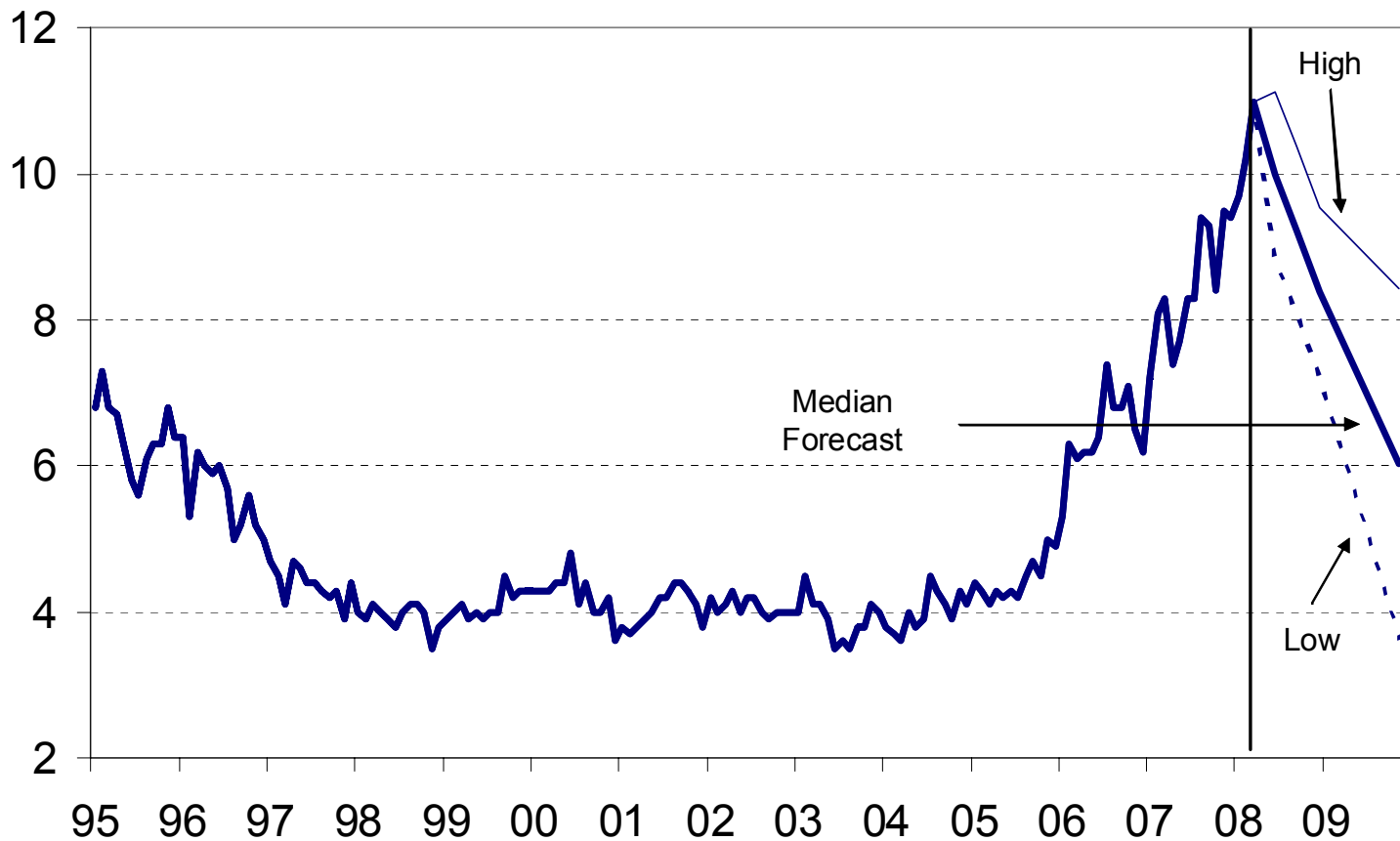
Percent change at an annual rate





Home Inventories Are Elevated

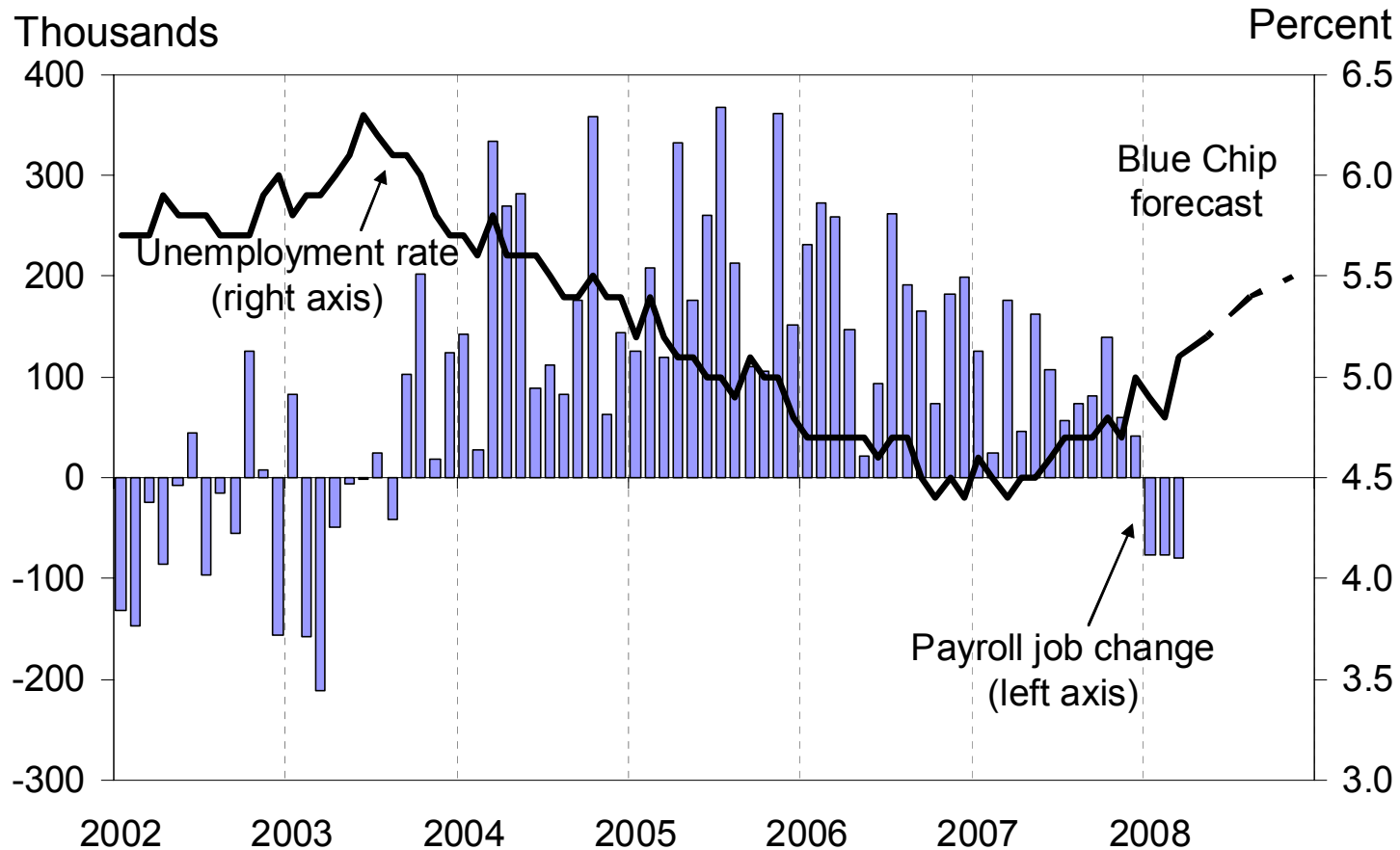
Months' Supply of New Single-Family Houses





Labor Market Slowdown

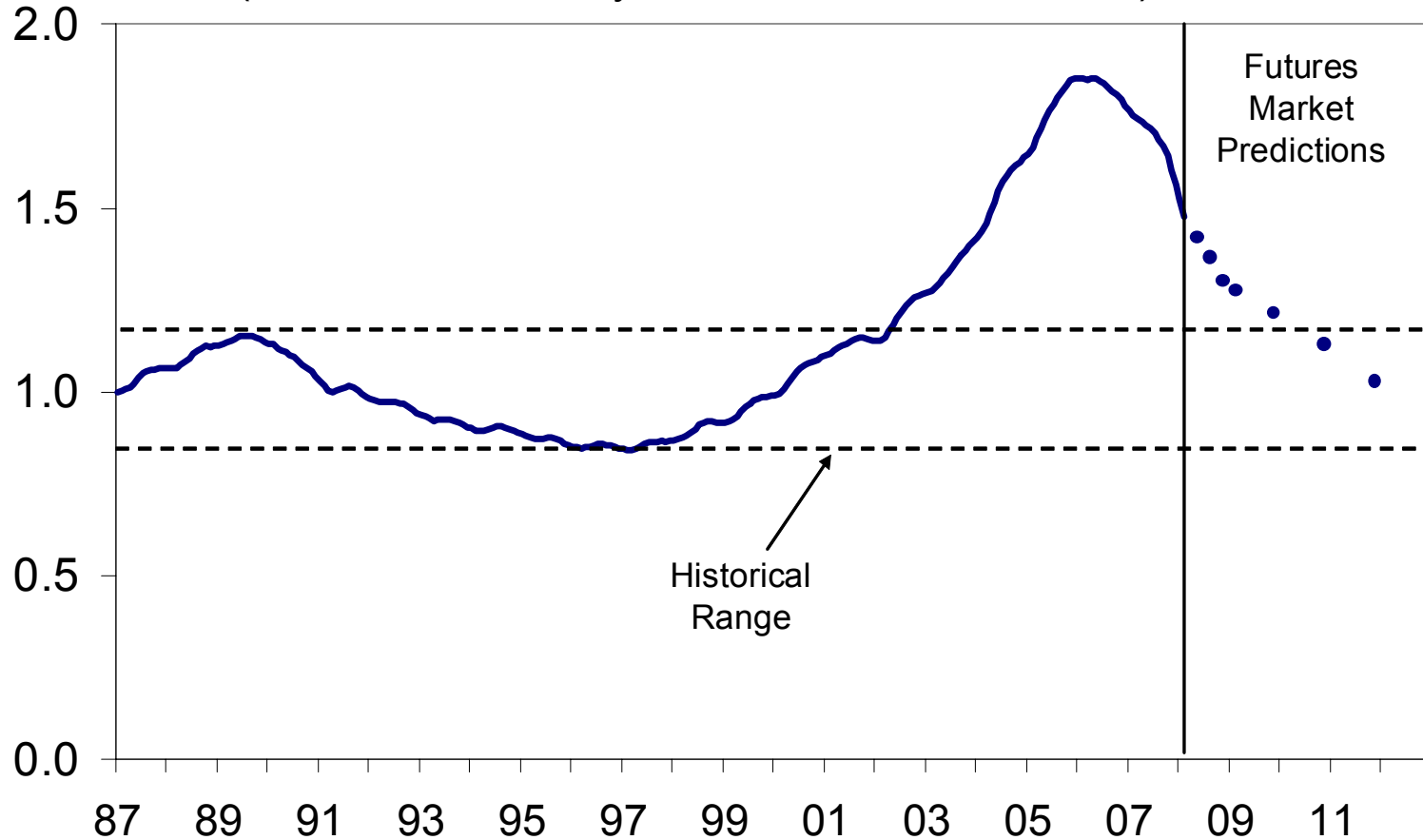
Unemployment Rate and Nonfarm Payrolls





Home Price Declines

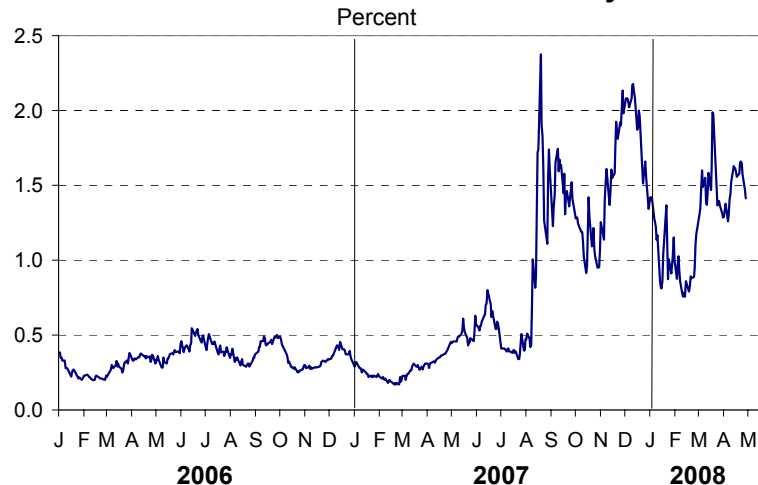
HOUSING PRICE/RENT RATIO
(Case-Shiller 10-City Price/Price Index for Rent)



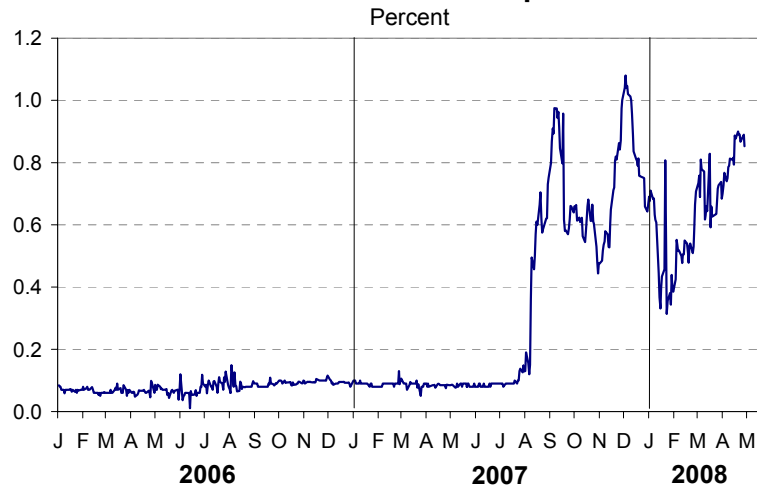


Financial Market Stresses

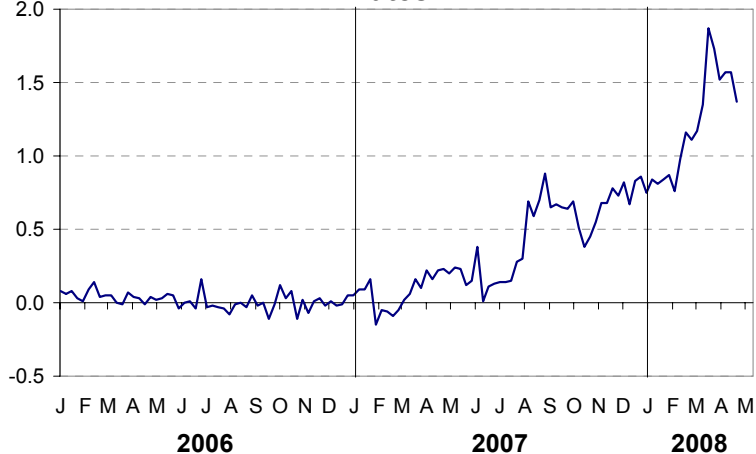
3-Month LIBOR Rate less 3-Month Treasury Bill Rate



3-Month LIBOR-OIS Spread



Spread Between Jumbo and 30-Year Mortgage Rates



Dow Jones CDX Investment Grade Index

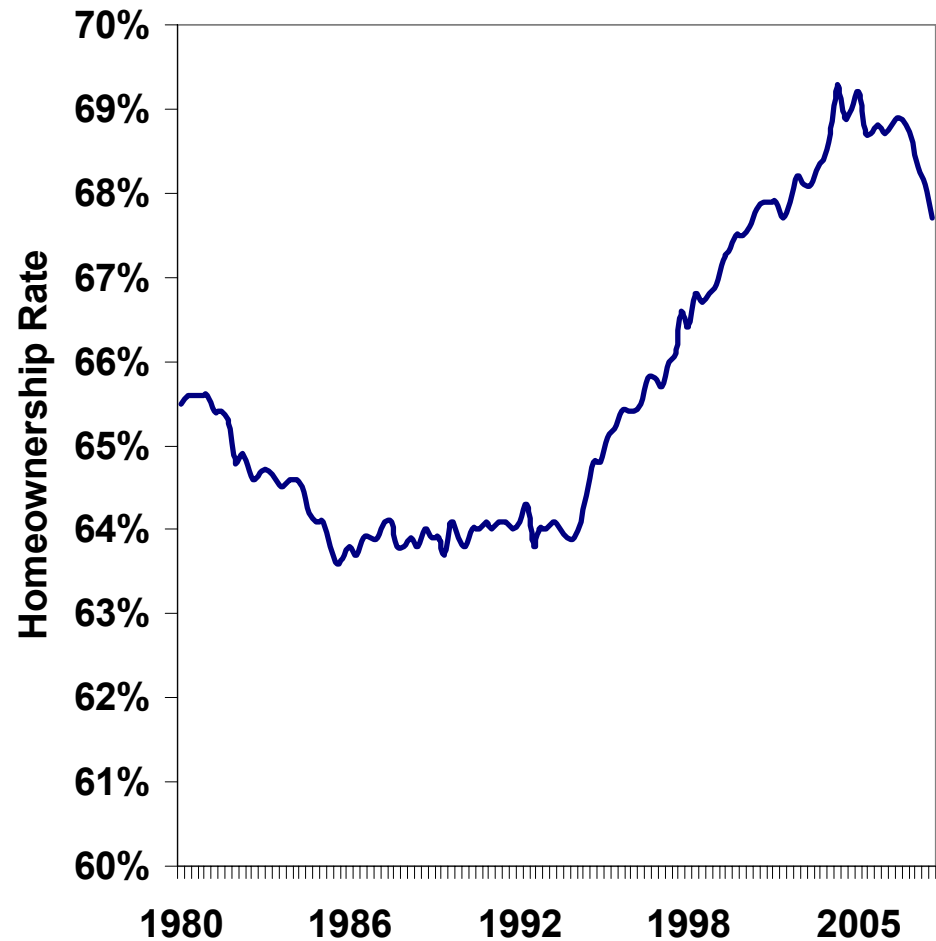




What Caused the Excesses?

Upside: more Americans became homeowners

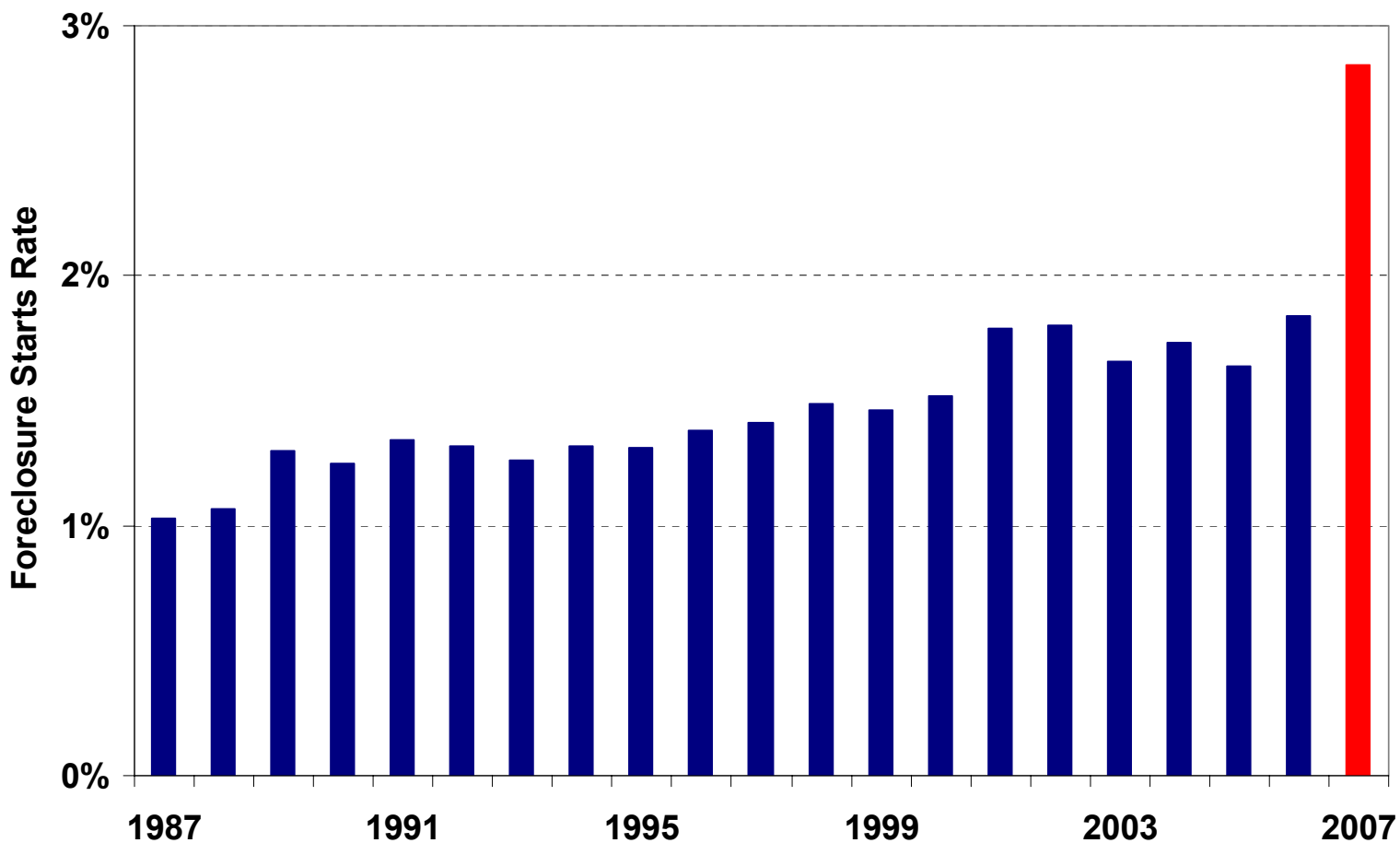
- Poor origination practices
 - Low-doc / no-doc
 - No money down
- New mortgage products
 - Subprime hybrid ARMs
 - Pay option ARMs
- Originate-to-distribute model
- Structured product complexity
- Cheap credit





Nationwide Foreclosure Starts

Foreclosures have climbed to new levels





Foreclosures Are Costly for Everyone

- Homeowners and families
- Neighborhoods and communities
 - Each foreclosure lowers the value of other homes in the neighborhood and reduces the local tax base
- Lenders and investors
 - Foreclosures can cost 25-50% of a home's value
- The economy as a whole
 - Foreclosures add additional inventory to the housing market, putting pressure on prices, new construction and the wealth effect

The Problem in Perspective

80mm houses

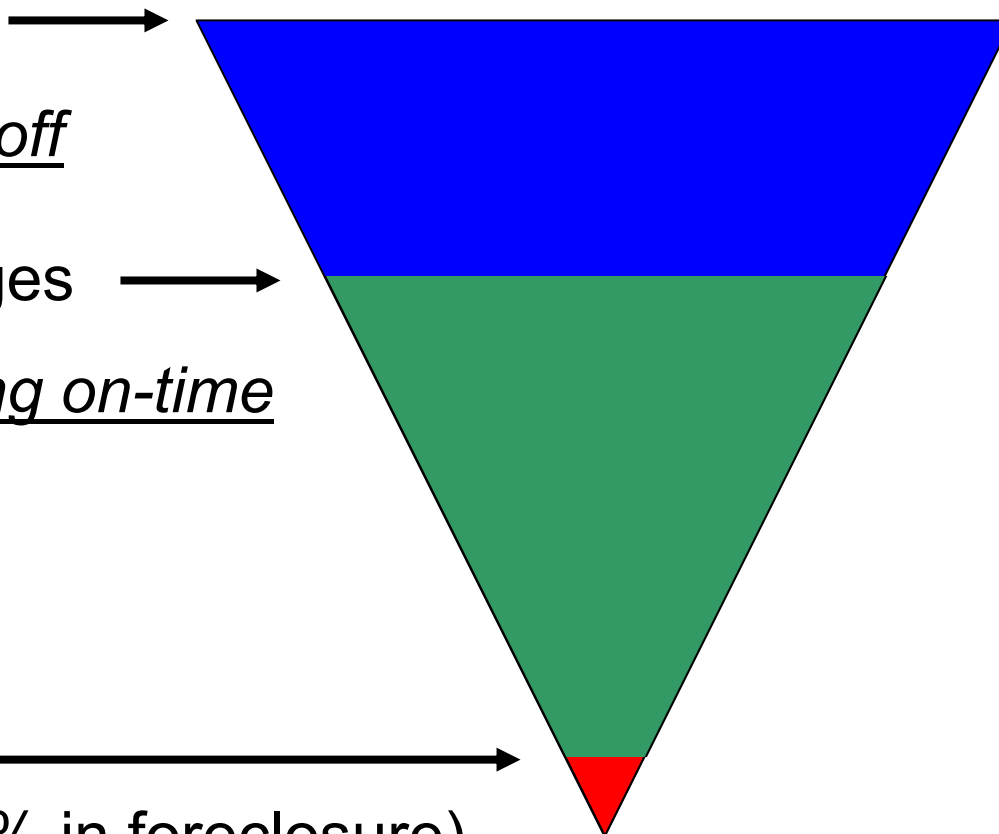
25mm are paid off

55mm have mortgages

51mm are paying on-time

4mm are behind

(8% of 55mm with 2% in foreclosure)



This compares to 50% seriously delinquent in the 1930s

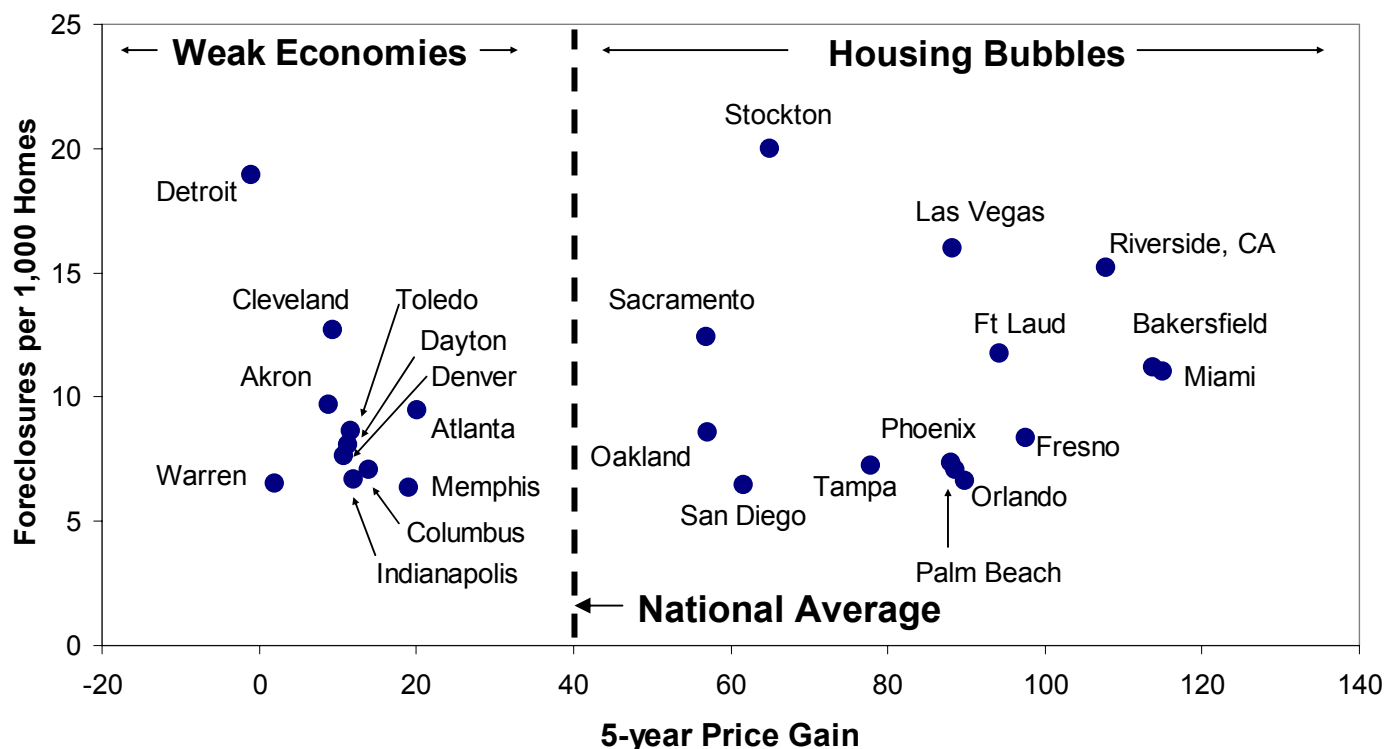


Regional View of Foreclosures

Strong appreciation or weak economies are drivers

Housing Bubbles vs. Rust Belt Recessions

5-year price gains vs. Foreclosures per 1,000 Homes



The top-25 “foreclosure hotspots” include areas where the housing downturn reflects the weak economy (IN, MI, OH), and areas where foreclosures reflect the end of a housing bubble that left the “last ones in” underwater (AZ, CA, FL, NV).



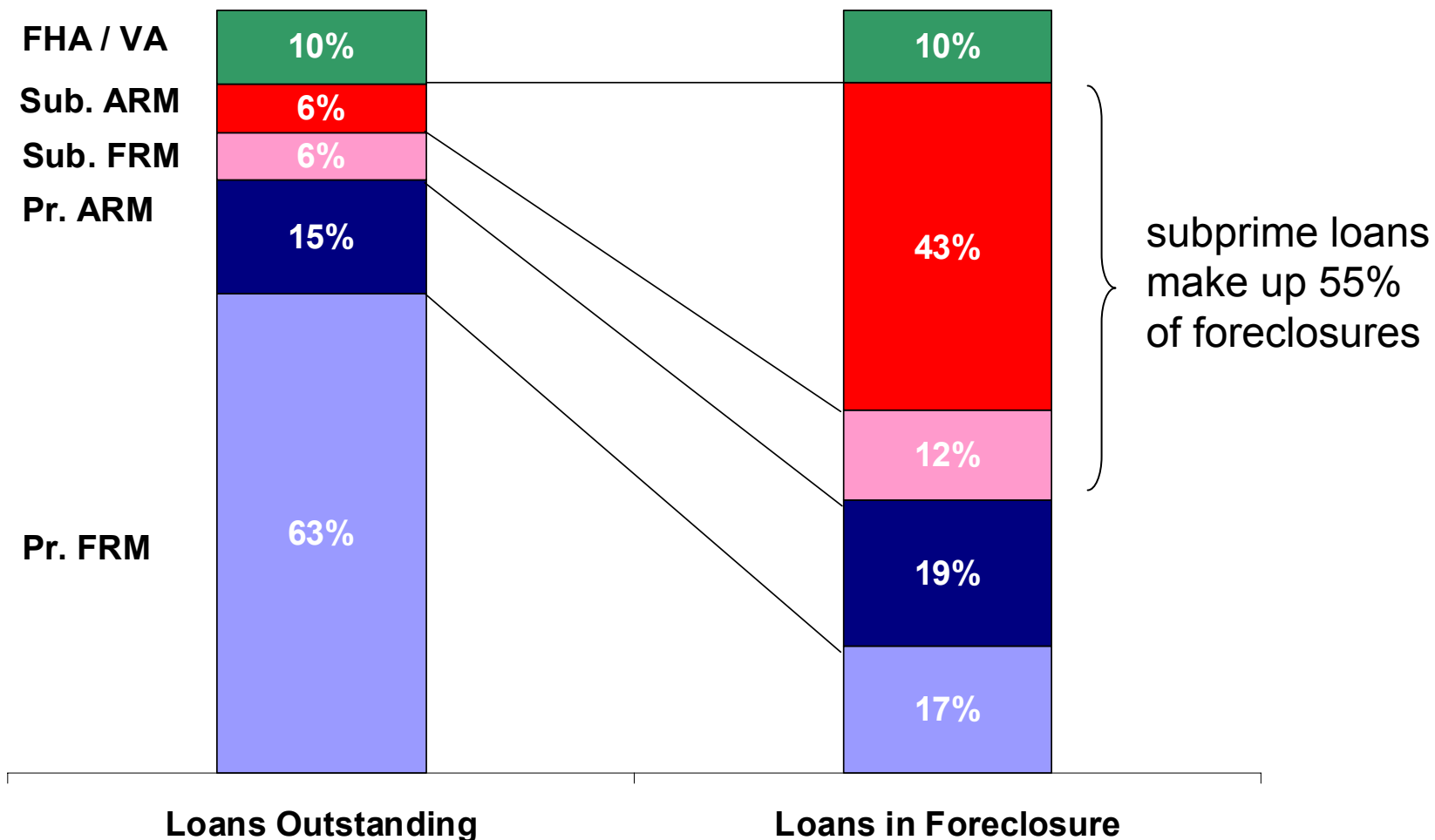
Our Housing Market Objectives

- Avoid preventable foreclosures
- Ensure the flow of capital into the housing market
- Enable the necessary housing correction to move forward as quickly as possible
- Minimize the spillover from housing to the real economy



Foreclosures by Product

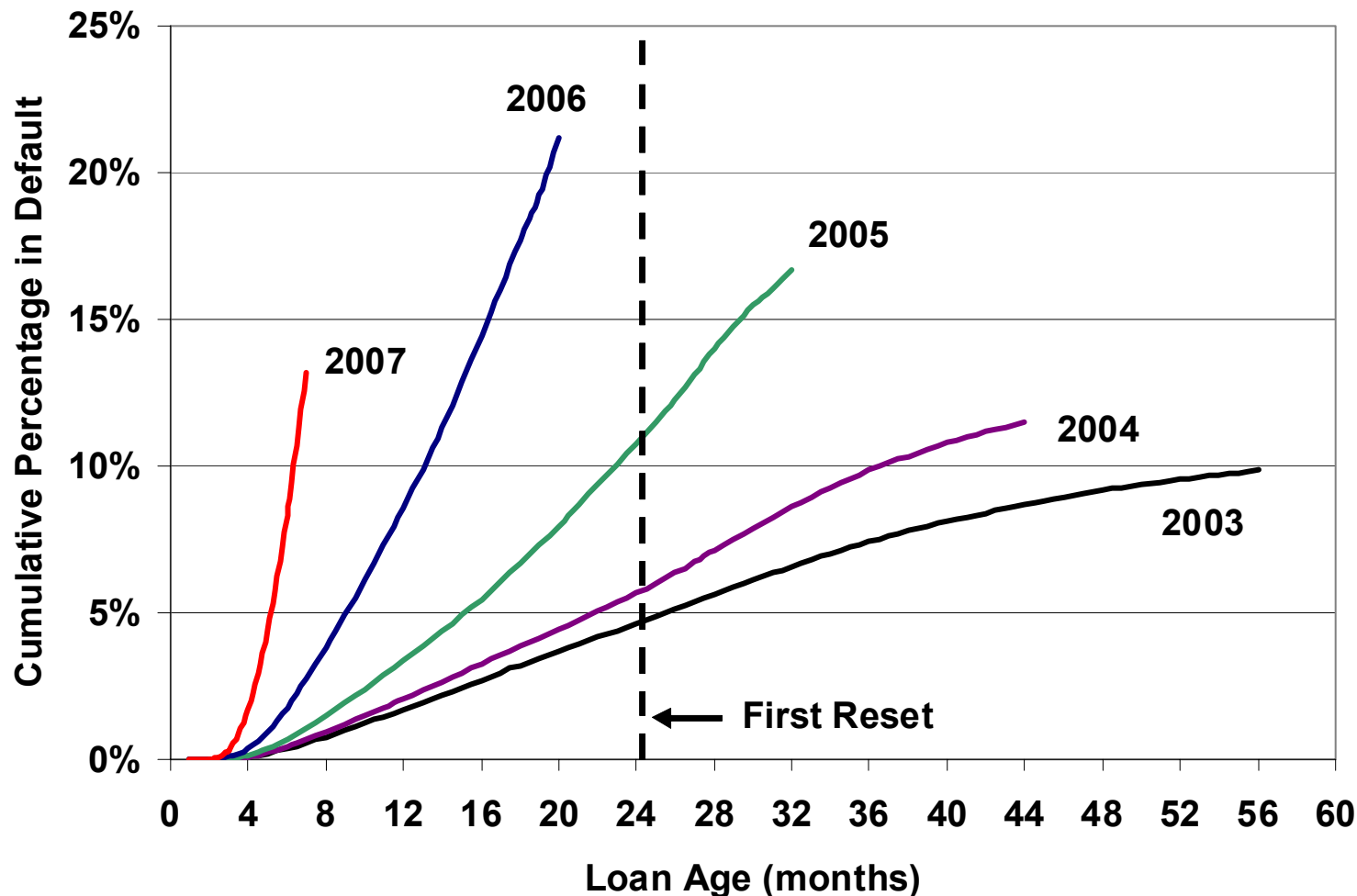
Foreclosures are highly concentrated in subprime





Subprime ARM Delinquency

Recent vintages show very poor underwriting





Avoiding Preventable Foreclosures

- There were over 650,000 foreclosure starts a year from 2001 to 2005
 - Unfortunate life events happen: job loss, divorce, illness
- Some people bought more home than they could ever hope to afford
 - Many will become renters again
- Some people speculated on endless appreciation in either their primary residence or an investment property
 - Some may choose to walk away
- We are focused on people who both 1) want to keep their home and 2) have the financial wherewithal to do so



Today's Mortgage Market

Securitization has introduced new challenges

- Historically, a borrower in trouble would renegotiate with his local banker
- Today investors are scattered around the world - with servicers acting as intermediaries
- Many homeowners are scared or embarrassed and don't know that help is available
 - In as many as 50% of foreclosures, the homeowner never spoke with their lender
- Many market participants have been working hard individually with limited results
- A coordinated effort was needed



Our Housing Strategy Tools

- The HOPE NOW Alliance
- FHASecure
- Government-Sponsored Enterprises



The HOPE NOW Alliance

Reaching homeowners is the biggest challenge

- More than 25 mortgage servicers
 - Greater than 94% of the subprime market
 - Greater than 70% of the overall market

- Non-profit housing counselors
 - Leaders such as NeighborWorks America and the HomeOwnership Preservation Foundation

- Investors
 - Fannie & Freddie

- Trade organizations
 - American Securitization Forum / SIFMA
 - Mortgage Bankers Association
 - Financial Services Roundtable



The HOPE NOW Alliance

Multiple tools to reach and help homeowners

- Nationwide counseling hotline: 888-995-HOPE
- Best practices for servicers and counselors
- Notification to subprime borrowers 120-days pre-reset
- HOPE NOW letters to 60-day delinquent borrowers
- Servicers / investors funding counseling complementing government support
- ASF fast-track plan for subprime ARMs
 - Refinance or rate freeze for those who can pay the starter rate
- Project Lifeline for all highly delinquent borrowers
 - Possible foreclosure pause for borrowers who ask for help



Counselor Funding

Investors funding counseling for the first time

- Historically, counseling was supported by foundations and the government
- Congress and the President allocated \$350mm for counseling
- Investors benefit from reduced foreclosures and lower losses
- American Securitization Forum provided guidelines for servicers to seek reimbursement for counseling expenses from investors
- HOPE NOW and ASF are establishing a long-term, sustainable funding model that is in the best interest of both homeowners and investors



ASF Fast-Track Plan

Refinance and rate freeze for subprime ARMs

- 1.8mm 2/28s and 3/27s resetting in 2008 and 2009
- Possible market failure if servicers are unable to handle the volume of calls from troubled borrowers
 - Uses payment history, LTV, FICO to speed servicer decision making
- Borrowers who could not pay the starter rate will need case-by-case help
- Remaining borrowers who can not afford higher payment will be fast-tracked into a refinance or 5-year rate extension
 - Recent interest rate reductions have reduced the reset problem: protocols are now in place for when rates climb



Project Lifeline

Reaching out to borrowers most in need

- 90-day delinquent borrowers receive Lifeline notice
- Borrowers may qualify for a foreclosure “pause” of up to 30 days while a long-term solution is evaluated
 - Borrowers must call and express interest in keeping their homes
 - Provide updated financials to servicer
 - Servicer evaluates potential workouts
 - If a workout seems feasible, servicer will pause the foreclosure process
- Unlike across-the-board foreclosure moratoriums, borrowers who are most likely able to keep their homes self-select
- Allows the housing adjustment to move quickly while helping homeowners



FHASecure

FHA providing refinancing to subprime borrowers

- Provides 30 year, fixed rate mortgages to borrowers
- FHASecure provides refinancing for borrowers who defaulted due to a reset
 - Previously borrowers had to be current to qualify
- 170,000 borrowers have refinanced since August 2007
- FHA studying options to expand coverage administratively
- President Bush has called on Congress to pass FHA Modernization
 - Potential help for an additional 250,000 borrowers



GSEs

Playing a countercyclical housing market role

- Economic stimulus bill raised loan limits for GSEs and FHA
 - New limits as much as \$729,750 in high cost areas
- Federal Home Loan Banks to purchase ~\$100bn of GSE paper
- OFHEO eliminated portfolio caps and reduced capital ratio in exchange for plan to raise substantial additional capital
 - Could provide up to \$200 billion in additional liquidity
- GSE Reform
 - Must ensure that they have a regulatory structure that is on par with other financial institutions



What Should We Do About “Underwater” Borrowers?

- Much has been made of estimated 9mm who owe more than their home is worth
- Being “underwater” does not change one’s ability to pay one’s mortgage
- For the vast majority of Americans, their home is not just a short-term investment
- Homeowners who can afford their mortgage but walk because they are underwater are merely speculators
- It is not the government’s job to make people whole for their investment losses



Are Principal Write-downs Appropriate?

■ Borrowers with an affordability problem

- Affordability problems can often be solved by reducing interest rates and extending the mortgage term
- Servicers generally reduce principal in conjunction with other, less costly, alternatives

■ Borrowers with an equity problem

- Servicers and investors are reluctant to reduce principal due to moral hazard
 - Losing 40% on one loan is better than 10% on five



How Do Servicers Evaluate Loan Modification Options?

		Current CLTV											
		40%	50%	60%	70%	80%	90%	100%	110%	120%	130%	140%	150%
Necessary Payment Reduction	10%	FC	T	T	T	T	T	T	T	T	T	T	T
	20%	FC	T	T	T	T	T	T	T	T	T	T	T
	30%	FC	FC	TR	TR	TR	TR	TR	TR	TR	TR	TR	TR
	40%	FC	FC	FC	FC	TR	TR	TR	TR	TR	TR	TR	TR
	50%	FC	FC	FC	FC	FC	TR	TR	TR	TR	TR	TR	TR
	60%	FC	FC	FC	FC	FC	FC	FC	TR	TR	TR	TR	TR
	70%	FC	FC	FC	FC	FC	FC	FC	FC	TRP	TRP	TRP	TRP
	80%	FC	FC	FC	FC	FC	FC	FC	FC	FC	FC	TRP	TRP
	90%	FC	FC	FC	FC	FC	FC	FC	FC	FC	FC	FC	FC
	100%	FC	FC	FC	FC	FC	FC	FC	FC	FC	FC	FC	FC

Legend

FC	Foreclosure
T	Term Extension
TR	Term Extension + Rate Reduction
TRP	Term Extension + Rate Reduction + Principal Writedown

Illustrative Assumptions

- 60% Current value recovery in foreclosure
- 40 Maximum loan term
- 2.0% Minimum interest rate
- 50% Minimum principal

Note: Ignores second liens and ignores short-sale as a loss mitigation option



Measuring Results

- **More people are calling for help**
 - Hotline receiving 4,500 calls per day up from 650 in August
 - 20% response rate to HOPE NOW letters – over 1mm letters sent (over 200k per month)
- **More people are getting workouts**
 - Almost 1.4mm people received a workout since July
 - Loan modifications growing faster than repayment plans
- **More people are refinancing**
 - Over 170,000 people have refinanced into FHA since August



Measuring Results: All Loans

(numbers in thousands)	Q1-07	Q2-07	Q3-07	Q4-07	Q1-08
Repayment plans	261	270	320	332	323
Modifications	54	65	76	141	179
Total Workouts	314	335	396	473	503
Modifications as a % of Workouts	17%	19%	19%	30%	36%



Measuring Results: Sub. ARMs

Minimizing foreclosures for those who could afford the starter rate

- 431,171 subprime 2/28 and 3/27 scheduled to reset in Q1 2008
- 203,000 (47%) were paid in full through refinancing or sale
- 14,418 were modified
 - Nearly 64% were modified for 5 years or more
- Only 553 loans that were current at reset have entered foreclosure



When Will the Correction End?

- Some people fear a vicious cycle of lower home prices, increased foreclosures, increased inventories leading to even lower prices
- Homebuilders are the key to breaking that cycle
 - Single-family starts are falling – as one would expect – down 63% to 680k per year in March from 1.8mm peak in early 2006
 - Household formation is about 1.2mm per year
- We are working through the excess inventory
 - New home inventory is down 18% to 468,000 units in March from peak
- As prices continue to fall, we expect buyers to step into the market