

**Remarks on the Home Mortgage Industry in Mesa, Arizona**

*February 18, 2009*

Thank you very much. Please, everybody have a seat. Thank you. Well, it is good to be back in Arizona. Thank you. Are you excited? Thank you, thank you. And thank you for arranging for such a beautiful day. I want to stick around, but I got to go back to work. But it is wonderful to be here. And to all of you, I know that attending these kinds of events, oftentimes you have to wait in line, and there's all kinds of stuff going on, but I appreciate you being here very much. And to all the officials here at the school, the principal and the student body, everybody who helped make this possible, thank you so much to all of you.

I'm here today to talk about a crisis unlike we've ever known, but one that you know very well here in Mesa and throughout the valley. In Phoenix and its surrounding suburbs, the American Dream is being tested by a home mortgage crisis that not only threatens the stability of our economy, but also the stability of families and neighborhoods. It's a crisis that strikes at the heart of the middle class: the homes in which we invest our savings and build our lives, raise our families and plant roots in our communities.

So many Americans have shared with me their personal experiences of this crisis. Many have written letters or emails or shared their stories with me at rallies and along rope lines. Their hardship and heartbreak are a reminder that while this crisis is vast, it begins just one house and one family at a time.

It begins with a young family—maybe in Mesa or Glendale or Tempe—or just as likely in a suburban area of Las Vegas or Cleveland or Miami. They save up, they search, they choose a home that feels like the perfect place to start a life. They secure a fixed-rate mortgage at a reasonable rate, and they make a downpayment, and they make their mortgage payments each month. They are as responsible as anyone could ask them to be.

But then they learn that acting responsibly often isn't enough to escape this crisis. Perhaps somebody loses a job in the latest round of layoffs, one of more than 3.5 million jobs lost since this recession began. Or maybe a child gets sick, or a spouse has his or her hours cut.

In the past, if you found yourself in a situation like this, you could have sold your home and bought a smaller one with more affordable payments, or you could have refinanced your home at a lower rate. But today, home values have fallen so sharply that even if you make a large downpayment, the current value of your mortgage may still be higher than the current value of your house. So no bank will return your calls, and no sale will return your investment.

You can't afford to leave; you can't afford to stay. So you start cutting back on luxuries. Then you start cutting back on necessities. You spend down your savings to keep up with your payments. Then you open the retirement fund. Then you use the credit cards. And when you've gone through everything you have and done everything you can, you have no choice but to default on your loan. And so your home joins the nearly 6 million others in foreclosure or at risk of foreclosure across the country, including roughly 150,000 right here in Arizona.

But the foreclosures which are uprooting families and upending lives across America are only part of the housing crisis. For while there are millions of families who face foreclosure, there are millions more who are in no danger of losing their homes, but who have still seen

their dreams endangered. They're the families who see the "For Sale" signs lining the streets, who see neighbors leave, and homes standing vacant, and lawns slowly turning brown. They see their own homes, their single largest asset, plummeting in value. One study in Chicago found that a foreclosed home reduces the price of nearby homes by as much as 9 percent. Home prices in cities across the country have fallen by more than 25 percent since 2006. And in Phoenix, they've fallen by 43 percent.

And even if your neighborhood hasn't been hit by foreclosures, you're likely feeling the effects of this crisis in other ways. Companies in your community that depend on the housing market—construction companies and home furnishing stores and painters and landscapers—they're all cutting back and laying people off. The number of residential construction jobs has fallen by more than a quarter million since mid-2006. As businesses lose revenue and people lose income, the tax base shrinks, which means less money for schools and police and fire departments. And on top of this, the costs to local government associated with a single foreclosure can be as high as \$20,000.

So the effects of this crisis have also reverberated across the financial markets. When the housing markets collapsed, so did the availability of credit on which our economy depends. And as that credit has dried up, it's been harder for families to find affordable loans to purchase a car or pay tuition, and harder for businesses to secure the capital they need to expand and create jobs.

In the end, all of us are paying a price for this home mortgage crisis. And all of us will pay an even steeper price if we allow this crisis to continue to deepen, a crisis which is unraveling home ownership, the middle class, and the American Dream itself. But if we act boldly and swiftly to arrest this downward spiral, then every American will benefit. And that's what I want to talk about today.

The plan I'm announcing focuses on rescuing families who have played by the rules and acted responsibly, by refinancing loans for millions of families in traditional mortgages who are underwater or close to it, by modifying loans for families stuck in subprime mortgages they can't afford as a result of skyrocketing interest rates or personal misfortune, and by taking broader steps to keep mortgage rates low so that families can secure loans with affordable monthly payments.

At the same time, this plan must be viewed in a larger context. A lost home often begins with a lost job. Many businesses have laid off workers for a lack of revenue and available capital. Credit has become scarce as markets have been overwhelmed by the collapse of securities backed by failing mortgages. In the end, the home mortgage crisis, the financial crisis, and this broader economic crisis are all interconnected, and we can't successfully address any one of them without addressing them all.

So yesterday in Denver, I signed into law the American Recovery and Reinvestment Act, which will create or save—[*applause*]. The act will create or save 3½ million jobs over the next 2 years, including 70,000 right here in Arizona, right here—[*applause*—doing the work America needs done. And we're also going to work to stabilize, repair, and reform our financial system to get credit flowing again to families and businesses.

And we will pursue the housing plan I'm outlining today. And through this plan, we will help between 7 and 9 million families restructure or refinance their mortgages so they can afford—avoid foreclosure. And we're not just helping homeowners at risk of falling over the

edge, we're preventing their neighbors from being pulled over that edge too, as defaults and foreclosures contribute to sinking home values, and failing local businesses, and lost jobs.

But I want to be very clear about what this plan will not do: it will not rescue the unscrupulous or irresponsible by throwing good taxpayer money after bad loans; it will not help speculators who took risky bets on a rising market and bought homes not to live in but to sell; it will not help dishonest lenders who acted irresponsibly, distorting the facts—[applause]—distorting the facts and dismissing the fine print at the expense of buyers who didn't know better; and it will not reward folks who bought homes they knew from the beginning they would never be able to afford. So I just want to make this clear: This plan will not save every home.

But it will give millions of families resigned to financial ruin a chance to rebuild. It will prevent the worst consequences of this crisis from wreaking even greater havoc on the economy. And by bringing down the foreclosure rate, it will help to shore up housing prices for everybody. According to estimates by the Treasury Department, this plan could stop the slide in home prices due to neighboring foreclosures by up to \$6,000 per home.

So here's how my plan works: First, we will make it possible for an estimated 4 to 5 million currently ineligible homeowners who receive their mortgages through Fannie Mae or Freddie Mac to refinance their mortgages at a lower rate.

Today, as a result of declining home values, millions of families are what's called "underwater," which simply means that they owe more on their mortgages than their homes are currently worth. These families are unable to sell their homes, but they're also unable to refinance them. So in the event of a job loss or another emergency, their options are limited.

Also right now, Fannie Mae and Freddie Mac, the institutions that guarantee home loans for millions of middle class families, are generally not permitted to guarantee refinancing for mortgages valued at more than 80 percent of the home's worth. So, families who are underwater or close to being underwater can't turn to these lending institutions for help.

My plan changes that by removing this restriction on Fannie and Freddie so that they can refinance mortgages they already own or guarantee.

And what this will do is it will allow millions of families stuck with loans at a higher rate to refinance. And the estimated cost to taxpayers would be roughly zero. While Fannie and Freddie would receive less money in payments, this would be balanced out by a reduction in defaults and foreclosures.

I also want to point out that millions of other households could benefit from historically low interest rates if they refinance, though many don't know that this opportunity is available to them—meaning some of you—an opportunity that could save your families hundreds of dollars each month. And the efforts we are taking to stabilize mortgage markets will help you borrowers secure more affordable terms too.

A second thing we're going to do under this plan is we will create new incentives so that lenders work with borrowers to modify the terms of subprime loans at risk of default and foreclosure.

Subprime loans, loans with high rates and complex terms that often conceal their costs, make up only 12 percent of all mortgages but account for roughly half of all foreclosures. Right now, when families with these mortgages seek to modify a loan to avoid this fate, they often find themselves navigating a maze of rules and regulations, but they're rarely finding

answers. Some subprime lenders are willing to renegotiate, but many aren't. And your ability to restructure your loan depends on where you live, the company that owns or manages your loan, or even the agent who happens to answer the phone on the day that you call.

So here's what my plan does: establishes clear guidelines for the entire mortgage industry that will encourage lenders to modify mortgages on primary residences. Any institution that wishes to receive financial assistance from the Government, from taxpayers, and to modify home mortgages, will have to do so according to these guidelines, which will be in place 2 weeks from today.

Here's what this means: If lenders and home buyers work together, and the lender agrees to offer rates that the borrower can afford, then we'll make up part of the gap between what the old payments were and what the new payments will be. Under this plan, lenders who participate will be required to reduce those payments to no more than 31 percent of a borrower's income. And this will enable as many as 3 to 4 million homeowners to modify the terms of their mortgages to avoid foreclosure.

So this part of the plan will require both buyers and lenders to step up and do their part, to take on some responsibility. Lenders will need to lower interest rates and share in the costs of reducing monthly payments in order to prevent another wave of foreclosures. Borrowers will be required to make payments on time in return for this opportunity to reduce those payments.

And I also want to be clear that there will be a cost associated with this plan. But by making these investments in foreclosure prevention today, we will save ourselves the costs of foreclosure tomorrow, costs that are borne not just by families with troubled loans, but by their neighbors and communities and by our economy as a whole. Given the magnitude of these crises, it is a price well worth paying.

There's a third part of the plan: We will take major steps to keep mortgage rates low for millions of middle class families looking to secure new mortgages.

Today, most new home loans are backed by Fannie Mae and Freddie Mac, which guarantee loans and set standards to keep mortgage rates low and to keep mortgage financing available and predictable for middle class families. Now, this function is profoundly important, especially now as we grapple with a crisis that would only worsen if we were to allow further disruptions in our mortgage markets.

Therefore, using the funds already approved by Congress for this purpose, the Treasury Department and the Federal Reserve will continue to purchase Fannie Mae and Freddie Mac mortgage-backed securities so that there is stability and liquidity in the marketplace. Through its existing authority, Treasury will provide up to \$200 billion in capital to ensure that Fannie Mae and Freddie Mac can continue to stabilize markets and hold mortgage rates down.

And we're also going to work with Fannie and Freddie on other strategies to bolster the mortgage markets, like working with State housing financing agencies to increase their liquidity. And as we seek to ensure that these institutions continue to perform what is a vital function on behalf of middle class families, we also need to maintain transparency and strong oversight so that they do so in responsible and effective ways.

Fourth, we will pursue a wide range of reforms designed to help families stay in their homes and avoid foreclosures.

And my administration will continue to support reforming our bankruptcy rules so that we allow judges to reduce home mortgages on primary residences to their fair market value, as



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