Subject: The President's Housing Speech and Plan
Importance: High

The President's speech, which references state HFAs, is below. A White House Fact Sheet on the housing plan is attached.

THE WHITE HOUSE
Office of the Press Secretary

FOR IMMEDIATE RELEASE
February 18, 2009

Remarks of President Barack Obama on the Home Mortgage Crisis – As Prepared for Delivery
Phoenix, Arizona
February 18, 2009

I'm here today to talk about a crisis unlike any 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 is a crisis that strikes at the heart of the middle class: the homes in which we invest our savings, 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 suburban Las Vegas, 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, make a down payment, and 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 someone loses a job in the latest round of layoffs, one of more than three and a half 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 made a large down payment, 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 and you can't afford to stay. So you cut back on luxuries. Then you cut 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 six 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 one part of this 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 are families who see "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 largest single assets – 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; in Phoenix, they've fallen by 43 percent.

Even if your neighborhood hasn't been hit by foreclosures, you're likely feeling the effects of the crisis in other ways. Companies in your community that depend on the housing market – construction companies and home furnishing stores, painters and landscapers – they're 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 a local government associated with a single foreclosure can be as high as $20,000.

The effects of this crisis have also reverberated across the financial markets. When the housing market collapsed, so did the availability of credit on which our economy depends. As that credit has dried up, it has 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 deepen – a crisis which is

unraveling homeownership, the middle class, and the American Dream itself. But if we act boldly and swiftly to arrest this downward spiral, 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 sub-prime 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 the 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 interconnected. We cannot successfully address any one of them without addressing them all.

Yesterday, in Denver, I signed into law the American Recovery and Reinvestment Act which will create or save three and a half million jobs over the next two years – including 70,000 in Arizona – doing the work America needs done. We will also 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 am outlining today.

Through this plan, we will help between seven and nine million families restructure or refinance their mortgages so they can avoid foreclosure. And we are not just helping homeowners at risk of falling over the edge, we are preventing their neighbors from being pulled over that edge too – as defaults and foreclosures contribute to sinking home values, failing local businesses, and lost jobs.

But I also 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 irresponsibility, 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. In short, 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 everyone. 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.

Here is how my plan works:

First, we will make it possible for an estimated four to five million currently ineligible homeowners who receive their mortgages through Fannie Mae or Freddie Mac to refinance their mortgages at lower rates.

Today, as a result of declining home values, millions of families are "underwater," which means they owe more on their mortgages than their homes are worth. These families are unable to sell their homes, and unable to refinance them. So in the event of a job loss or another emergency, their options are limited.

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 – cannot 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. This 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 – an opportunity that could save families hundreds of dollars each month. And the efforts we are taking to stabilize mortgage markets will help these borrowers to secure more affordable terms, too.

Second, we will create new incentives so that lenders work with borrowers to modify the terms of sub-prime loans at risk of default and foreclosure.

Sub-prime 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 rarely finding answers. Some sub-prime lenders are willing to renegotiate; many aren't.

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 you call.

My plan 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, and to modify home mortgages, will have to do so according to these guidelines – which will be in place two weeks from today.

If lenders and homebuyers work together, and the lender agrees to offer rates that the borrower can afford, we'll make up part of the gap between what the old payments were and what the new payments will be. And under this plan, lenders who participate will be required to reduce those payments to no more than 31 percent of a borrower's income. This will enable as many as three to four 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. Lenders will need to lower interest rates and share in the costs of reduced 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.

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 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 costs, it is a price well worth paying.

Third, 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. 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.

We're also going to work with Fannie and Freddie on other strategies to bolster the mortgage markets, like working with state housing finance 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 foreclosure.

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 long as borrowers pay their debts under a court-ordered plan. That's the rule for investors who own two, three, and four homes. It should be the rule for ordinary homeowners too, as an alternative to foreclosure.

In addition, as part of the recovery plan I signed into law yesterday, we are going to award $2 billion in competitive grants to communities that are bringing together stakeholders and testing new and innovative ways to prevent foreclosures. Communities have shown a lot of initiative, taking responsibility for this crisis when many others have not. Supporting these neighborhood efforts is exactly what we should be doing.

Taken together, the provisions of this plan will help us end this crisis and preserve for millions of families their stake in the American Dream. But we must also acknowledge the limits of this plan.

Our housing crisis was born of eroding home values, but also of the erosion of our common values. It was brought about by big banks that traded in risky mortgages in return for profits that were literally too good to be true; by lenders who knowingly took advantage of homebuyers; by homebuyers who knowingly borrowed too much from lenders; by speculators who gambled on rising prices; and by leaders in our nation's capital who failed to act amidst a deepening crisis.

So solving this crisis will require more than resources – it will require all of us to take responsibility. Government must take responsibility for setting rules of the road that are fair and fairly enforced. Banks and lenders must be held accountable for ending the practices that got us into this crisis in the first place. Individuals must take responsibility for their own actions. And all of us must learn to live within our means again.

These are the values that have defined this nation. These are values that have given substance to our faith in the American Dream. And these are the values that we must restore now at this defining moment.

It will not be easy. But if we move forward with purpose and resolve – with a deepened appreciation for how fundamental the American Dream is and how fragile it can be when we fail in our collective responsibilities – then I am confident we will overcome this crisis and once again secure that dream for ourselves and for generations to come.

Thank you, God Bless you, and God bless America.

You are currently subscribed to whitehouse-daily-reporters as: jpalmieri@americanprogress.org.
To unsubscribe send a blank email to leave-whitehouse-daily-reporters-2214045D@list.whitehouse.gov