



This is great news for borrowers that want to stay in their homes and can qualify for mortgage modification. This measure will force the hand of the lenders to modify terms or work with the struggling borrower if they expect to have the fed's buy equity in shares of the banking system themselves. The fact that this new "government partner" has a direct interest in making sure the old assets or troubled mortgages start to perform again, we may see some serious motivation to help more borrowers in 2009, which is a positive step forward. What this means to you is that necessary adjustments will continue to be made to get you an affordable rate and payment schedule. Meanwhile, those Banks and Servicers that participate will be financially rewarded to cooperate. As far as praising HOPE NOW for its efforts, I feel this is fairly biased. From the research we have done, it is our opinion that the primary focus of HOPE NOW has been to encourage forbearance agreements, which typically only solves a short-term hardship. The majority of homeowners who are faced with the possibility of foreclosure have a longer term hardship threatening them. Presenting them with a forbearance option is about as effective as putting a band-aid on a severed limb. In most cases, this option only prolongs the inevitable problem, which creates a ticking time bomb that is sure to extend the housing crisis. They only answer is a real modification that will give them reduction in payments. Another interesting fact worth noting was Paulson's statement that lenders have successfully lowered troubled borrower's payments by 23% overall and have an average savings of \$383 dollars a month. These are definitely steps in the right direction.

Editor: National Mortgage Network

Paulson Unveils Phase Two of TARP

Delivering an update to the **Troubled Asset Relief Program (TARP)**, U.S. Treasury Secretary Henry Paulson said that purchasing troubled assets - the original intention of the \$700 billion rescue package - is not an effective use of the program.

"It was clear to me by the time the bill was signed on October 3rd that we needed to act quickly and forcefully, and that purchasing troubled assets - **our initial focus** - would take time to implement and would not be sufficient given the severity of the problem," he said. "In consultation with the Federal Reserve, I determined that the most timely, effective step to improve credit market conditions was to strengthen bank balance sheets quickly through direct purchases of equity in banks."

The move is a departure from the original plan to unfreeze credit markets through the purchase of troubled assets in September.

Instead, Paulson said the money should be used to attract private capital. He also said the private sector must work in tandem with public assistance.

"We are carefully evaluating programs which would further leverage the impact of a TARP investment by attracting private capital, potentially through matching investments," he said.

The Treasury Secretary **also noted** that prior government actions "have clearly helped stabilize the financial system," and that the steps taken to prevent a systemic collapse have worked.

He also praised the steps taken yesterday to extend the Hope Now Alliance. "With this commitment, the GSEs and large portfolio investors are setting a new industry standard for foreclosure mitigation. Potentially hundreds of thousands more struggling borrowers will be enabled to stay in their homes at an affordable monthly mortgage payment," he said, adding the new initiatives will require "substantial government subsidies."

Prior to the announcement, the Wall Street Journal has published an article suggesting Paulson would modify the TARP to include requirements on attracting private capital to access the program.

By Erik Kevin Franco
◆CEP News Ltd. 2008

Treasury Not Planning to Buy Bad Loans, Assets

WASHINGTON -- Secretary Henry Paulson said the Treasury has put a plan to purchase illiquid mortgage-related assets on hold.

Meanwhile, the Treasury Department, signaling a new phase in its \$700 billion financial-rescue plan, is considering requiring that firms seeking future government money raise private capital in order to qualify for public assistance, according to people familiar with the matter.

The move isn't expected to apply to the existing \$250 billion capital-purchase program, which is already injecting money into banks. But Treasury is considering attaching such conditions to any of its future capital investments, these people said.

"We are carefully evaluating programs which would further leverage the impact of a TARP investment by attracting private capital, potentially through matching investments," Treasury Secretary Henry Paulson said in a broad speech on the Troubled Asset Relief Program, known as TARP, the global credit crunch and the government's recent steps to address the financial meltdown. "In developing a potential matching program; broadening access in this way would bring both benefits and challenges."

At the same time, Treasury is unlikely to conduct any auctions to purchase bad loans and other troubled assets -- the original intention of the \$700 billion rescue plan. Instead, Treasury is expected to continue focusing its firepower on injecting capital directly into the financial sector, these people said.

"Our assessment at this time is that this is not the most effective way to use TARP funds, but we will continue to examine whether targeted forms of asset purchase can play a useful role, relative to other potential uses of TARP resources, in helping to strengthen our financial system and support lending," he said, according to his prepared remarks.

House Financial Services Chairman Barney Frank (D., Mass.) said that Treasury disagreed with the plan to put asset purchases on hold. "We have a need to use that funding" for that purpose, Mr. Frank said at a hearing on Capitol Hill. Mr. Frank noted that Congress gave Treasury explicit authority to buy up mortgage-backed securities and whole mortgage loans as part of TARP.

Treasury has just \$60 billion left in its rescue fund, and either the current or next administration will have to turn to Congress to request the second half of the promised \$700 billion. Treasury has so far committed \$250 billion to banks and is spending an additional \$40 billion to buy preferred shares in [American International Group Inc.](#), the big insurer.

Neel Kashkari runs the Treasury's TARP program, which is unlikely to conduct any auctions to purchase bad loans and other troubled assets -- the original intention of the \$700 billion financial-industry rescue plan.

treasury is expected to widen its program to inject capital into smaller, closely held banks, and is considering expanding its rescue to other nonbank financial institutions, such as insurers and specialty-finance companies. It may

also do another round of financing for publicly traded banks. In addition, Treasury is under increasing pressure from Democrats in Congress to open the program to the ailing auto sector.

In another step, U.S. bank regulators could announce guidelines this week designed to encourage U.S. banks to remain active lenders as financial markets are squeezed. Many U.S. companies and individuals have become dependent on bank credit lines as financial markets have tightened up. The regulatory guidelines could also address sensitive issues of bank dividend payments and executive pay.

The fact that Treasury may now require firms to raise money marks a new phase for the government, which had resisted such a move previously. Before launching its \$250 billion capital-purchase program last month, Treasury toyed with requiring banks to raise matching funds alongside any government investment, but it thought that might discourage some firms from participating. It also worried that firms would not be able to raise private money in the current market environment.

Instead, Treasury structured its investment in a way that it believed would encourage firms to eventually raise private funds. But Treasury officials now think market conditions may have improved enough that companies could raise private capital.

Some economists advocate requiring companies to raise matching funds, saying it lessens the government's ability to pick winners and losers.

"This idea has the great virtue of incorporating private-sector judgment on the viability and management of these financial firms," said Douglas Elmendorf, a senior fellow with the Brookings Institution and a member of President-elect Barack Obama's transition team.

The World Bank unveiled such an initiative on Tuesday for developing-country banks, in which it will put in \$1 for every \$2 the banks raise from others.

Initially, in late September, Mr. Paulson asked Congress for authority to purchase \$700 billion worth of distressed assets, arguing that banks and other institutions were suffering from the rotten assets clogging their balance sheets.

Figuring out how to purchase assets has proved tricky, in large part because it's difficult to determine how to price such assets, many of which are backed by risky mortgages and carry depressed values. Buying them at market prices would further hurt banks, since the firms would have to write down the value of those assets. But paying above-market prices could potentially hurt taxpayers if the assets never recover in price.

Treasury has no current plans to purchase assets, people familiar with the matter said, and is instead focused on investing directly in firms that provide financing to the broader economy.

On Monday, Treasury and Federal Reserve officials held a phone briefing with Capitol Hill staffers about the government's revised rescue of AIG. While Treasury will buy \$40 billion in preferred AIG stock, the Fed will use \$50 billion to purchase distressed assets from the company. On the call, Hill staffers asked why the Fed was buying the assets instead of Treasury. Fed staffers said the structure will help insulate taxpayers, according to someone familiar with the call.

Still, some lawmakers are eager to see Treasury focus exclusively on capital injections, rather than asset purchases.

"The more you look at auctions or asset purchases, the more you have the same problem: How do you set the price?" said Sen. Charles Schumer (D., N.Y.).

—Maya Jackson Randall, Michael R. Crittenden and Damian Paletta contributed to this article.

Even the states are getting involved on their own levels to try and help. The more pressure that the lenders receive the more likely we will see relief to those in trouble. Loss Mitigation and Loan Modifications will become the most inherent procedure in mortgage lending for 2009.

From the WSJ Real Estate Archives

States Move Fast On Mortgage Aid

by RUTH SIMON and AMY MERRICK
From [The Wall Street Journal Online](#)
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State governments are acting more aggressively to help homeowners avoid foreclosure, frustrated by what they view as the federal government's inadequate response to the mortgage crisis. But some of the programs are putting states at odds with mortgage lenders.

Ohio officials announced Tuesday that they had enlisted more than 1,000 local attorneys to work with certain borrowers free of charge to try to block foreclosures.

Wednesday, an Illinois lawmaker introduced a bill, backed by the state's governor, that would impose a moratorium of as long as 60 days on foreclosures. The measure would apply only to borrowers who enter housing counseling and is meant to give them more time to work out a deal with lenders.

Maryland Gov. Martin O'Malley signed emergency legislation Thursday to give borrowers at least 150 days to cure defaults, effectively creating a short-term moratorium on foreclosures. The state also is requiring mortgage-servicing companies to provide the names of borrowers whose adjustable-rate mortgages are about to reset to higher rates, and it is asking companies to stop levying late fees and other charges on borrowers whose request for a loan workout is being evaluated.

The state actions come as Congress considers a variety of plans to aid the housing market, including a \$15 billion plan that includes a tax credit to buyers of properties facing foreclosure and grants for communities to buy and refurbish foreclosed properties. But there is little in the plan that would help individual borrowers facing foreclosure, and state officials say they can't wait for federal help.

Foreclosures push down property values and tax revenues and create problems not only for borrowers in financial distress, but also for their neighbors and communities.

"We have a crisis in mortgage foreclosures, and this seemed like the boldest way that we could respond to the problem," said state Sen. Ellen Anderson, a sponsor of a Minnesota bill that would let some borrowers with subprime loans or negative amortization mortgages defer paying a portion of the amount owed, without being considered delinquent. A negative amortization mortgage is one in which the loan balance can grow even if the borrower keeps up with the payments.

The Minnesota legislation would require a mortgage lender attempting to foreclose on a home to honor a borrower's request for a 12-month deferment. During that time, the borrower would have to continue paying either the monthly payment due on the loan at the time it was made, or 65% of the monthly payment at the time of default, whichever was less, though the borrower would eventually have to make up the deferred payments. The bill has passed committees in the Minnesota House and Senate, but the governor has said he probably will veto it. Wednesday, the bill's sponsors sent to the governor a letter suggesting that lawmakers work with him to craft a compromise.

The legislation faces strong industry opposition. "It would significantly erode the confidence lenders and borrowers have about the stability of contracts in Minnesota," said Tom Deutsch, deputy executive director of the American Securitization Forum, an industry group.

These latest efforts by states are more aggressive -- and in some cases more controversial -- than earlier programs, most of which provided counseling services or offered to refinance certain home loans into state-backed mortgages with better terms. However, the counseling and refinancing programs aren't helping as many homeowners as hoped, in part because borrowers seeking state help tend to be in such bad financial shape that their situations don't lend themselves to easy solutions.

As a result, the programs are targeting more troubled borrowers. Beginning May 1, borrowers in Massachusetts will have 90 days to cure any defaults before their mortgage company can initiate a foreclosure. Massachusetts officials have already obtained 30- to 60-day delays in the foreclosure process for more than 630 borrowers facing the loss of their homes. More than half were able to avoid foreclosure through modifications, refinances, short sales and other initiatives, state officials say.

Under Ohio's new legal effort, pro bono attorneys will counsel certain homeowners facing foreclosure, try to broker deals with mortgage companies, and represent borrowers in mediation or in court.

"There are defenses to many more of these proceedings than we ever thought," said Ohio Attorney General Marc Dann. For instance, the party bringing the foreclosure action may not own the mortgage, he said, or attorneys may be able to show that the mortgage was "fraudulently induced."

Such efforts "will help promote the conversation between borrowers and lenders," said Paul Richman, vice president of state government affairs for the Mortgage Bankers Association. "It's something we don't have a problem with so long as it's not being used to create unnecessary and frivolous delays in the legal process." However, the association opposes foreclosure moratoriums.

