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Opening Lessons from the Crisis

Today our nation is still digging out of the worst downturn since the Great Depression that at its core involved systemically reckless behavior and a herd mentality that drove our housing market off a cliff. At the time President Obama took office, this financial crisis had led to an economy that was spinning downward at the worst rate since the 1930s, with the economy contracting at a 7.8 percent rate over the six months from the fourth quarter of 2008 to the first quarter of 2009, and with jobs being lost at a torrid pace of 800,000 a month. Indeed, even by January 2009, our economy had already seen 22 straight months of housing price declines, $3.2 trillion in lost home equity and housing starts had fallen almost 80 percent from their peak.

With that type of historically deep and still-deepening hole in our housing market, with massive foreclosures and rising unemployment, it should come as little surprise that, as the President has said, housing has been among the most intractable challenges.

That said, we cannot forget what a critical difference this Administration's financial rescue measures made, not only on stabilizing our financial system and helping to prevent a second Great Depression, but on keeping our housing market from a much deeper fall with even more suffering for millions of working families.

Of course, HAMP – our Administration's mortgage modification program for struggling borrowers – did not provide the direct relief to as many as we may have wanted. But it did far more than is generally appreciated. To understand that, we have to look not just at the number of homeowners HAMP and FHA helped directly, but the private sector modifications that it helped lay a foundation for by setting an industry standard that had not previously existed.

In total, when we add the 1 million direct HAMP modifications plus the 1.3 million through FHA and the 2.8 million modifications done by the private sector – all told, about 5 million loans have been modified as a result of the template laid down in this program. That is twice the number of foreclosures over that same period. In that time, the rate of foreclosure starts has dropped by half.

There was a lesson here: one of the most important things that government can do in the effort to heal the housing crisis is to set a template that private industry can use and follow along with sensible incentives. Remember that when HAMP was established, borrowers were calling their servicers looking for help and the servicing industry did not yet know what to do with those calls. They had set up their businesses to handle a world in which borrowers simply paid their bills on time, so as millions of these borrowers now called for some help, the industry was unprepared. The standard set by HAMP made a major difference beyond those directly impacted, by setting a template for how to restructure the loans of struggling borrowers, and getting them onto a more sustainable path.

Pushing for an All-of-the-Above Strategy

The President has been clear that this problem was not created overnight and it will not be solved overnight, and his message to all of us on the housing team could not have been clearer as we entered 2011: turn over every stone and push wherever possible to help responsible homeowners and help the market recover. Where Congress was not likely to be as cooperative as we might like, look for every way to push the housing market forward without them. To borrow a phrase from the energy realm, he wanted an "all-of-the-above" housing strategy.

Over the last several months, we have been working to execute this strategy – focusing wherever possible on using executive authority to move the ball forward and building on the lessons of our interventions to use the unique role of government to help establish industry standards and remove market barriers so that private capital can drive the housing economy out of this recession and back to firmer ground.

This strategy can be understood as responding forcefully to three central challenges facing our housing market today:

1. <u>First, never give up on the millions of responsible borrowers struggling to hold on to their homes;</u>

2. <u>Second, attack not only the unprecedented nationwide supply overhang that has weighed down the national market, but also the supply of foreclosed homes that has contributed to vicious downward spirals in hard-hit neighborhoods and communities across America;</u>

3. <u>Third, take all steps to combat new and old barriers to housing for typical working families – new but unnecessary barriers to accessing mortgage credit and old, outdated practices that leave too few protections and too little transparency for borrowers.</u>

And so I'd like to turn to discussing these challenges:

1. Never Give Up on the Millions of Responsible Borrowers Struggling to Hold on to Their Homes

Perhaps the most toxic legacy of the Great Recession is the negative interaction of long-term unemployment and rising foreclosures. Indeed the average unemployed worker has now been out of job for almost 10 months. That is near the highest on record. It is more than double the average of four months before the crisis hit, and it is far higher than even the previous record of around five months in the 1983 recession. This puts millions of hard working families in a virtual race to find a job, not only to support their families but to save their homes.

But as of last year, the mortgage industry, and frankly the government as well, was still providing only three months of forbearance on mortgage payments for folks looking for work. In short, our policies were telling displaced workers who wanted to save their homes that they had to find a job in a sprint at a time when the labor market was demanding an endurance run.

Twelve Months of Forbearance for Borrowers Looking for Work

This was a point made to us with force by many of the top grassroots housing organizations and they deserve credit for pushing all of us to push harder. After close analysis, we recognized that longer forbearance not only makes moral sense, it was net positive economically as well, because giving unemployed borrowers longer to find work means for many the difference between paying their loan and defaulting. Indeed, the Federal Reserve has confirmed this view, saying precisely this, that forbearance for unemployed borrowers "may prove helpful in preventing costly foreclosures among homeowners suffering temporary income reductions."[1]

As we knew that legislation was unlikely, the President pushed the envelope by calling for offering 12 months of forbearance in two government programs – FHA and HAMP. We were told by many that this step would have little impact as HAMP is a voluntary program and FHA alone does not cover enough of the market to move the dial, and the industry would never come off of the more conservative position of three months.

But as we learned again: setting a standard for industry to follow can matter. With banks having to set up procedures to provide 12 months of forbearance, the industry largely decided to follow suit. So I am heartened to report that major servicers and the GSEs alike are now offering up to 12 months forbearance for borrowers looking for work. No one would doubt that it would have been a significant legislative achievement to require 12-month forbearance for the unemployed. Through the efforts above, we were able to virtually achieve this without legislation.

Principal Reduction Strategy

While unemployment acutely affects borrowers' ability to meet their mortgage payments, the dramatic reduction in housing prices has left about 11 million homeowners "underwater" – with negative equity – owing more on their mortgage than their homes are worth. This does not just weigh on the homeowners, who find it harder to move to better jobs and better schools, it weighs on the economy. A host of studies, including recent research by Karl Case and Robert Shiller, make clear that a decline in housing market wealth has an outsized impact on consumption – cutting spending per capita by two to three times as much as a decline in stock market wealth.[2]

The President has long believed that, if designed thoughtfully in ways that support families who are committed to staying in their home and rebuilding their equity, principal reduction is an important tool in our arsenal to help homeowners. Yet it has been under-utilized by the market. So the President has pushed all of us on his housing team to identify thoughtful ways to strengthen this tool and expand its use. Secretary Geithner, Secretary Donovan and those of us on the National Economic and Domestic Policy Councils sought to present the President with a comprehensive strategy we could do – again without Congress.

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[1] Board of Governors of the Federal Reserve System. "The U.S. Housing Market: Current Conditions and Policy Considerations." January 4, 2012. http://www.federalreserve.gov/publications/other-reports/files/housing-white-paper-20120104.pdf.

[2] Case, K., J.M. Quigley, and R.J. Shiller. "Wealth Effects Revisited." Cowles Foundation Discussion Paper No. 1784. February 2011. Table 3, p. 27. http://cowles.econ.yale.edu/P/cd/d17b/d1784.pdf.

One area was to look at our tools under HAMP. We identified tools we had within existing administrative authority – most notably increasing the incentives paid through HAMP for principal reduction modifications. Yet because HAMP is a voluntary program, we risked having too little of an impact with incentives alone.

So we developed a strategy whereby we would seek to require the major banks to put in place the machinery for principal reduction through the national mortgage servicing settlement, and then use the incentives to give greater fuel to these efforts. Secretary Donovan worked hard to ensure that a significant part of the settlement terms was a commitment by the nation's major lenders to provide tens of billions of dollars in principal reduction to hundreds of thousands of borrowers. Following the lessons learned earlier, we felt that beyond the direct benefits of the principal reduction required by the settlement, we could finally begin to move the industry by compelling for the first time these major lenders to invest in setting up the systems and processes to provide principal reduction modifications on a larger scale.

Much like with HAMP, these steps have the potential to set an industry standard and encourage a practice that will reach more borrowers than the Federal government could on its own. Again our view was that with this foundation in place, increasing incentives had the potential to be far more powerful. This is why, in the same month as announcing the settlement, the Administration announced that we were tripling incentives for lenders to write down principal in HAMP.

In addition, the Treasury Department has offered the GSEs the same deal, so that they too provide principal reduction for those borrowers where it makes the most economic sense. This has the potential to expand common-sense principal reduction to a larger pool of borrowers. These three steps – requiring the infrastructure for principal reduction modifications through the settlement; tripling incentives for such modifications through HAMP; and extending these incentives for the other half of the market with GSE loans – have the potential to change industry practice and make principal reduction a more effectively and widely-used tool.

And we are already seeing the industry move in this direction, increasingly deploying it as a sensible step to take for certain underwater borrowers. Indeed over the last few months, two out of every three deeply underwater participants in HAMP are getting principal reduction from their lender. That is twice the rate of a year ago.

2. The Legacy of the Housing Bubble: The Supply Overhang

Another unique legacy of this crisis is the historically high inventory of homes for sale. The good news is that the "visible inventory" of existing and new homes for sale on the market has dropped to roughly half of its peak, from 12.1 months' supply in July 2010 to 6.3 months' supply today, approaching its pre-crisis average of 4-5 months.

But as realtors like yourselves know all too well, the crisis created a new "shadow inventory" of seriously delinquent, foreclosed, and bank-owned properties. Today, this shadow inventory itself stands at 6 months' supply, doubling the overall inventory. This is below the peak of 8.4 months in January 2010, but far above the less than one month supply that prevailed before the crisis.

This supply weighs heavily on the recovery. We know that foreclosures and abandoned properties have spillover effects that can lower housing values in an entire neighborhood. The most authoritative studies suggest that each foreclosure within a tenth of a mile radius of a given house lowers its predicted sale price by 7.2 percent.[3]

Even more devastating is that, once a neighborhood passes a tipping point of concentrated foreclosures in their community, a vicious downward spiral ensues – foreclosures drive down prices, leading to more foreclosures, lower prices, and on and on. And we know that this is the kind of market failure and needless destruction of wealth in our communities that smart economic policies can address.

Revitalizing the hardest hit neighborhoods: Moving Vacant Properties to Rental Housing

Since the beginning of his Administration, the President's plan has been targeted to prevent these kinds of vicious cycles. The Recovery Act laid the foundation for a transformational neighborhood-based rebuilding strategy with the Neighborhood Stabilization Program. Through that program, the Department of Housing and Urban Development under Secretary Donovan's leadership has provided $7 billion to 13,000 neighborhoods across 48 states. These resources are used to put people to work in communities refurbishing vacant properties, helping stem the tide of further foreclosures and housing price declines.

These efforts are showing impressive early results – two-thirds of neighborhoods that received this assistance showed increased home prices – largely as a result of improved vacancy rates.[4] But over the past year, with these resources drying up, the President tasked us with looking at what more we could do to address this challenge of excess housing supply in hard-hit neighborhoods through executive action.

As we worked through this problem, we isolated another important lever: "real-estate-owned", or REO, properties. These are properties owned by the banks or the government after a foreclosure, which largely sit vacant, creating pockets of distress and driving down neighborhood home prices in communities across the country. It turns out that the GSEs and FHA together own almost half of the nation's inventory of these properties, a result of their having stepped up to play a stronger, countercyclical role during the downturn.

So we were presented with a challenge: how do you sell these properties expeditiously, so that they are filled again by families, without adding to the supply in already oversupplied markets, driving down home prices again and threatening their recovery? In answering this question, we discovered that in many of the markets with the deepest oversupply, where the challenge is greatest, there is actually an undersupply of rental housing. So in the challenge we have found

[3] Campbell, J.Y., S. Giglio, and P. Pathak. "Forced Sales and House Prices." The American Economic Review. August 2011. http://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.101.5.2108.

[4] U.S. Department of Housing and Urban Development. Written Testimony of Secretary Shaun Donovan before the Senate Committee on Banking, Housing and Urban Affairs. February 28, 2012. http://banking.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=ca6bc735-465e-4c63-9eb8-e6291aca526d.

opportunity: set up a model that helps move this inventory into the rental supply, easing both the oversupply in the owner-occupied market and the undersupply in the rental market.

Treasury Secretary Geithner and his team have taken the lead in working with the FHFA on a pilot to do exactly this, selling pools of GSE REO inventory to investors willing to use them as rental properties while the market recovers. This process is a win-win-win – for the government, renters, and homeowners. In January, the Federal Reserve wrote that "a government-facilitated REO-to-rental program has the potential to help the housing market and improve loss recoveries on REO portfolios," and economists at Goldman Sachs wrote that "we estimate that the nationwide effects of an REO-to-rental program on house prices would be positive...and reduce rent inflation."[5]

To be clear, this is not going to work for all markets, even all oversupplied markets, and Treasury and FHFA are moving carefully and deliberately to make sure we do this in a way that does not adversely impact neighborhoods or local real estate markets. Putting in place a successful template and strategy is particularly important in this area, as trends show there will be substantial flow of REO properties working their way through the market over the next couple of years.

3. A Market that is Still Not Working Well Enough for Consumers

Another challenging legacy of the economic crisis is that we are left with a housing market fraught with economically nonsensical barriers and rules of the road that are unclear to borrowers and lenders alike. This has made it too hard for borrowers to get a loan and too unclear what protections and obligations they have once they do. Over the past year, the President identified and has focused on two concrete ways to address this challenge without Congressional action: removing barriers to refinancing and putting in place a homeowner bill of rights.

Removing Barriers to Refinancing

Last Friday, the President was in Reno, Nevada visiting with a family who had recently refinanced their home. That family – the Kellers – was not able to refinance their home last year because they were deeply underwater. It was one of many barriers that were keeping responsible homeowners from benefiting from today's historically low interest rates. At the end of last summer, the President directed his team to investigate these barriers and knock down as many as we responsibly could. The result was a collaborative effort between the Administration, the FHFA, and lenders to lower fees, streamline the refinancing process, and allow deeply underwater borrowers to participate.

The changes were announced in October of 2011 and the first set went into effect in December of the same year. The initial results are promising:

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[5] Board of Governors of the Federal Reserve System. "The U.S. Housing Market: Current Conditions and Policy Considerations." January 4, 2012. http://www.federalreserve.gov/publications/other-reports/files/housing-white-paper-20120104.pdf.

1. Nationwide, refinancing applications have increased by 50 percent since the announcement in the fall. Much of this increase has been driven by a spike in HARP participation. Roughly one in three borrowers applying for refinancing today are applying for a loan through HARP, up from less than one in ten a year ago.[6]

2. And the impact in deeply underwater states has been even more dramatic. Refinancing applications in Nevada are up 237 percent since the first changes were put into place; in Arizona they have increased 181 percent; and in Florida they have increased 126 percent. This too is being driven almost entirely by HARP 2.0.

3. Informal surveys suggest that two in every three refinancing applications in these states are for HARP loans.[7]

A Homeowner Bill of Rights

This crisis exposed how badly broken the mortgage servicing system was in this country. Our economy, our homeowners and our housing industry were extremely ill-served by an inconsistent patchwork of standards, which failed to provide the needed support for both homeowners and investors. That is why, earlier this year, the President laid out a vision for a single set of rules that borrowers and lenders alike can follow – that will require lenders to be transparent about options and allow borrowers to meet their responsibilities to understand the terms of their commitments. For example, these rules include:

1. Simplified Forms: Every prospective homeowner should have access to clear, straightforward forms that help inform rather than confuse them when making what is for most families their most consequential financial purchase.

2. No Hidden Fees and Penalties: Servicers must disclose to homeowners all known fees and penalties in a timely manner and in understandable language, with any changes disclosed before they go into effect.

3. No More Conflicts of Interest: Servicers and investors must implement standards that minimize conflicts of interest that, during this crisis, stood in the way of rational strategies to help homeowners.

This “homeowner bill of rights” in effect sets the frame for much-needed regulatory reform in this space, because without one we run the risk that the different agencies with authority over the sector go in different, inconsistent directions, creating uncertainty at a time when what we need is not only stronger protections for consumers but also clarity for an industry trying to find firmer ground as they rebuild.

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[6] Mortgage Bankers Association. “Press Release – Weekly Application Survey.” April 18, 2012. http://www.mbaa.org/NewsandMedia/PressCenter/80482.htm.
[7] Mortgage Bankers Association. “Press Release - Weekly Application Survey.” March 21, 2012. http://www.mbaa.org/NewsandMedia/PressCenter/80276.htm.

The historic settlement that we reached with the nation's largest lenders and the State attorneys general takes the first strong step in implementing these important reforms. The terms of that agreement include a robust version of rules consistent with the President's bill of rights. We will see these lenders, and with them much of the market, moving to implement them over the next year.

Over this same stretch we will also begin to see the new Consumer Financial Protection Bureau (CFPB) introduce rules that will make these standards the law of the land, finally bringing clarity to the industry around what obligations a lender owes to families taking out a loan to make the biggest purchase of their life.

The Housing Market Appears to be Starting to Bounce Back

After several years where the housing market weighed down the recovery, there are preliminary signs that housing may once again be contributing to economic growth. With declining inventory, accelerating construction activity, stabilizing prices and increased demand, the housing market is poised for a recovery based on a firmer foundation than the bubble-driven excesses of the last decade:

- <u>For the first time since 2005, we have seen residential investment add to economic growth for four straight quarters, and it's grown faster and faster with each one</u>. Residential investment in the first quarter of 2012 was $349.4 billion, 19.1 percent above the previous quarter at an annualized rate. And it drove a substantial share of GDP growth – adding 0.4 percentage point or roughly a fifth of overall growth in the quarter.

- <u>Prices are stabilizing, particularly for non-distressed sales</u>. The CoreLogic non-distressed only index rose 2 percent month-over-month and is up 0.95 percent year-over-year. This is the first positive year-over-year value since January 2007. Other measures are moving in the same direction: the FHFA purchase-only house price – which includes relatively few distressed sales – rose over the past 12 months for the first time since July 2007, 0.4 percent above its February 2011 level.

- <u>New home construction is starting to recover</u>. Building permits rose by 4.5 percent from their February levels to an annual rate of 747,000 units, far exceeding market expectations. Permits are 30.1 percent above their March 2011 level. Housing starts were 654,000 at an annual rate, 10.3 percent above their level last year. The NAR Pending Home Sales Index is also up 12.8 percent year-over-year, and has risen for five of the past six months to its highest level since April 2010. When major homebuilders reported their first quarter profits they showed surprising strength in new orders – up 23 percent on average from last year.

- <u>Today, as I mentioned, the visible inventory – including existing and new homes on the market has dropped to 6.3 months' supply</u>, roughly half of its peak in July 2010 of 12.1 months and approaching its pre-crisis average of 4-5 months.

- As Barclays has said recently, we're seeing "more light and less tunnel."[8] And other analysts – from CoreLogic[9] to Bank of America[10] – have called a bottom in the housing market this year.

Do these early signs mean we are out of the woods for sure? In a global economy that contains multiple risks of course nothing is for certain. Does it mean that we are anywhere close to a full recovery in our housing market? Of course not, when we have such a long way to go to completely heal the enormous wounds suffered in the Great Recession. But I do believe there is real reason to be believe that America's housing market has stabilized and is on the way back – especially if we keep our foot on the pedal to do everything we can to accelerate the arrival of a robust housing recovery.

Where We Need Congress to Act

The truth is that while we will continue to push aggressively through executive actions there are some places where we cannot get the job done on our own. We need Congress to act. Let me highlight three of the most important areas where this is the case:

1. Refinancing

First, Congress must act to build on the refinancing momentum we've created and finally deliver on the President's call that every responsible homeowner be given a chance to save thousands of dollars a year. While we are finally beginning to expand the reach of HARP in the way that was originally intended, bringing refinancing relief to more families across the country, there are additional barriers that are critical to remove. That is why the President has put on his "to-do-list" for Congress the passage of legislation that would remove these last barriers and open up the market for home refinancing to millions more families.

The most important next step is opening this program up to genuine competition. Our logic in working to expand HARP through executive action was straightforward – because the GSEs already "own" the risk of these loans, they could relax the conventional underwriting requirements (so-called "reps and warrants") for responsible borrowers without incurring any additional risk, while helping homeowners and the economy and actually benefitting from lower default rates on these loans.

This is working well today for lenders looking to refinance their own borrowers:

- They can now send their borrowers through an application process that has been streamlined of most cost and risk, making it remarkably easy not only for borrowers, but also for the lenders.

[8] Foley, V., M. Gapen, and C. Morris. "More Light, Less Tunnel." Barclays. May 2012.
[9] Ibid.
[10] Meyer, M. "Housing Watch." Bank of America Merrill Lynch. March 22, 2012.

- They no longer have to perform a full underwriting – checking income statements, tax returns, and other measures – so they can refinance these borrowers in less time and with less effort.

- And most importantly, they can refinance these borrowers without assuming a new risk that if the borrowers go into default the GSEs are going to force them to buy the loan back because of faulty paper work.

But what we have not done yet is successfully unleash the full power of market competition that would allow all lenders to compete to provide the lowest refinancing rate and the best service to millions of homeowners. That is one key reason this legislation is so important.

At the heart of our entire belief in competition is the understanding that if multiple parties can compete for your business, the consumer is going to get a better deal. Yet today we allow so many obstacles for those who might want to offer you a better deal than your original lender that such competition is stunted.

Why? Because without legislation, the streamlined steps available to your original lender are not fully open to those who want to compete for your business. Simply put, those who are not your original lender typically have to fully underwrite your loan and then take on the risk that the GSEs make them buy the loan back because they have not dotted all their I's and crossed all their T's in the hundreds of pages of documentation—so called "put back" risk.

This prevents new lenders from competing for your business and as a result dulls the drive of your original lender to offer you the best deal possible. So it is not surprising, the refinancing offered to most of those even able to participate from HARP 2.0 averages almost 5 percent – far higher than they would be with real competition.

This is why we are proposing to level the playing field for all lenders participating in the program, streamlining both the process and the risk to match that now provided to lenders refinancing their own customers. This will finally remove the barriers to competition, opening up the market for each borrower's business in a way that will drive down pricing and open up the capacity of the industry. It is just common sense – a win-win for the market and for homeowners just looking for a fair deal.

The second limitation on this program today is that it is only open to those who have little to no equity in their home. This means that borrowers who have a greater equity cushion – so are actually lower risk – face greater barriers and higher costs to refinancing than those who are underwater in their homes. Have you ever heard of any program in any country at any time in history where borrowers with better collateral got a worse deal, or are even shut out altogether? This makes absolutely no economic sense. These borrowers are already a credit risk to the GSEs and again pose a lower risk than those benefiting today from streamlined refinancing through HARP.

So the second piece to our proposal is to extend this program to all GSE borrowers who have been paying their bills on time. This will open the program up to millions more eligible families,

finally making streamlined, low cost, low hassle refinancing the norm with the GSEs. These components clearing the way for GSE-insured borrowers to refinance have been introduced as legislation in the Senate by Senators Boxer and Menendez.

Next, we are pushing to open the market to borrowers currently locked out because they happen to have a loan that is not backed by the government. We have largely opened the market up for those with an FHA insured loan, and with the steps I have mentioned we will have opened it up for those with a GSE-guaranteed loan. But as it stands those underwater borrowers whose lender did not happen to get government backing for their loan are left out in the cold, even if they have been paying their mortgages on time for years.

This is not fair – these borrowers did not choose to have their mortgage held on the bank's portfolio or put into PLS rather than be guaranteed by Fannie or Freddie. Let's be honest: most have no idea. So how can we have a truly broad-based refinancing program that is fair to all working families if when two neighbors with the same sized loan, the same value house and the same record of paying their bills both go to their bank for refinancing and one has the door closed on them because they learn for the first time that their mortgage is not backed by the FHA or GSEs? So the President had a novel idea: if we're going to do broad-based refinancing, let's actually make it broad-based.

So this piece of the proposal would ensure that this refinancing opportunity is made available to all of these responsible borrowers, borrowers who have been paying on time and are just looking for a break to lower their interest rates, regardless of who did or did not guarantee the loan for their lenders and servicers. This component has been introduced in legislation by Senator Feinstein.

There is no excuse for inaction on these steps. First, the economic case is compelling:

- Mark Zandi of Moody's Analytics wrote in January that "there is no better way to quickly buoy hard-pressed homeowners than helping them take advantage of the currently record-low fixed mortgage rates and significantly reduce their monthly mortgage payments."[11]

- The Federal Reserve wrote that: "Obstacles limiting access to mortgage credit even among creditworthy borrowers contribute to weakness in housing demand, and barriers to refinancing blunt the transmission of monetary policy to the household sector. Further attention to easing some of these obstacles could contribute to the gradual recovery in housing markets and thus help speed the overall economic recovery."[12]

Second, this is not a partisan idea. Last time I checked, Republican families liked to refinance their mortgages and save money as much as Democratic families do. I have not yet heard any

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[11] Zandi, M. "Obama gives refinancing a helpful boost." Moody's Analytics. January 25, 2012. http://www.economy.com/dismal/article_free.asp?cid=228059&src=mark-zandi.

[12] Board of Governors of the Federal Reserve System. "The U.S. Housing Market: Current Conditions and Policy Considerations." January 4, 2012. http://www.federalreserve.gov/publications/other-reports/files/housing-white-paper-20120104.pdf.

stories of raucous town meetings where those of a particular ideological stripe protested that they prefer paying 7 percent interest on their mortgage rather than 4 percent.

- Surely that is why a Republican like my former debating partner and Chairman of the CEA under George W. Bush, Columbia Business School Dean Glenn Hubbard, wrote recently with coauthors: "The housing market benefits in many ways" from refinancing. "Lower mortgage payments reduce future defaults, helping to stabilize house prices for all homeowners, whether or not they have a GSE mortgage. The good news about refinancing may help improve consumer confidence, further benefiting the housing market. House prices may start to go up, leaving fewer borrowers underwater, starting a virtuous circle."[13]

- And that is why in October 2011, a group of 16 senators, including Republicans Johnny Isakson, Saxby Chambliss, Scott Brown and Richard Burr, wrote a letter to Secretaries Geithner and Donovan, Acting Director DeMarco, and me, calling for action to ease homeowner access to refinancing.[14]

2. Project Rebuild

Congress should pass Project Rebuild, a transformational effort to address the supply overhang in the nation's most distressed communities, and prevent a downward spiral of foreclosure and declining prices. Like refinancing, this makes good economic sense and it is just the right thing to do. It is heartbreaking to see a community that had been a strong middle class community slip into a downward spiral of distress as the numbers of foreclosures on their block mount and their property values fall.

Working together with Secretary Donovan, we crafted an ambitious plan to prevent the acute distress in hard-hit communities that is causing a vicious cycle of foreclosures, blight, falling property values and still more foreclosures.

Project Rebuild would provide $15 billion to communities to help them manage their local distress, and it is designed to give us the biggest bang for the buck: it leverages private capital and expertise, incentivizes recipients to partner with private sector parties; encourages innovative uses of funds; and it addresses commercial as well as residential distress.

Take one innovative use of funds under this program – supporting land banks. These are public or nonprofit organizations created to manage particularly distressed properties in their communities. They allow communities to leverage funding to address concentrations of distress, whether through demolition or large-scale redevelopment. Many housing experts, including those at the Federal Reserve, have increasingly pointed to them as an effective tool for stabilizing

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[13] Boyce, A., G. Hubbard, C. Mayer, and J. Witkin. "Streamlined Refinancings for up to 12 Million Borrowers." Columbia Business School Working Paper. March 2012. http://www4.gsb.columbia.edu/null/?&exclusive=filemgr.download&file_id=7220514.

[14] Office of United States Senator Johnny Isakson. "Isakson joins colleagues in calling for swift action to help homeowners refinance." October 13, 2011. http://johnnyisakson.com/newsroom/press-releases/2011/10/13/isakson-joins-colleagues-in-calling-for-swift-action-to-help-homeowners-refinance/.

communities burdened by a large number of vacant, abandoned, or foreclosed properties that are difficult to address in a one-off fashion. In communities in Michigan, Georgia, and Maryland, they have allowed local governments to overcome barriers to development with strategies like making tax-delinquent properties available for redevelopment, maintaining vacant lots, and transferring abandoned properties to adjacent owners.

With an investment like this we can help thousands more neighborhoods stabilize and recover, becoming communities that once again provide stability and hope to the families who live there. That is an investment worth making.

3. A Strong Jobs and Growth Plan will Help Housing Markets

Republicans in Congress need to reconsider their reflexive opposition to policies from small business tax relief to infrastructure investment to hiring back teachers laid off in this recession. These measures would not only create hundreds of thousands of jobs, but would speed the healing of the housing market. The tired debate about whether it is housing that should lead the economy or the economy that should lead housing should be put to rest – it is both.

As economists at Goldman Sachs have written, the current excess inventory is as much a matter of lagging demand as excess supply. As a poorer job outlook has driven young adults to live with their parents, household formation rates have fallen from a historical average of 1.0 to 1.3 million per year to about half as much – 600,000 to 700,000 – since 2008. As employment and household formation demand return, we'll see a virtuous cycle of a stronger housing recovery, and in turn, higher prices and wealth that drive job growth.[15]

This evidence indicates that policies like the *American Jobs Act* – which would have supported 1.3 to 1.9 million jobs and boosted GDP by up to 2 percent[16] – would shore up consumer balance sheets by raising income and wealth, contributing to a virtuous cycle of fewer defaults and foreclosures, reduced household debt, and thus, additional consumption and investment.

Conclusion

Our housing crisis was not caused overnight; it will not be fixed overnight. But it will be fixed. And it will be fixed by those Americans in policy, those in industry, those at nonprofits, those in community groups, finding a way to do what we always do, push forward.

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[15] Shan, H. and Z. Pandl. "US Economics Analyst: 12/07 – The Outlook for Household Formation." Goldman Sachs Global Economics, Commodities and Strategy Research. February 17, 2012.
[16] Zandi, M. "An Analysis of the Obama Jobs Plan." Moody's Analytics. September 9, 2011. http://www.economy.com/dismal/article_free.asp?cid=224641&src=mark-zandi.