NATIONAL PRESS CLUB LUNCHEON WITH STEVE PRESTON

SUBJECT: STEVE PRESTON, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT WILL ADDRESS A LUNCHEON

MODERATOR: SYLVIA SMITH, PRESIDENT, NATIONAL PRESS CLUB

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SYLVIA SMITH: (Sounds gavel.) Good afternoon. My name is Sylvia Smith. I'm the Washington editor of the Ft. Wayne *Journal Gazette* and president of the National Press Club.

We're the world's leading professional organization for journalists. And on behalf of our 3,500 members worldwide, I'd like to welcome our speaker and our guests in the audience today. I'd also like to welcome those of who are watching on C-Span or listening on XM Satellite Radio.

You know, we're celebrating our 100th anniversary at the Club this year, and we've rededicated ourselves to a commitment to the future of journalism through informative programming, journalism education, and fostering a free press worldwide. For more information about the National Press Club, please visit our website at www.press.org.

We're looking forward to today's speech, and afterward, I'll ask as many questions from the audience as time permits.

I'd now like to introduce our head table and ask our guests to stand briefly when their names are called. From you're right, Bill Douglas from McClatchy Newspapers; Alison Vekshin of Bloomberg News; Cheyenne Hopkins of American Banker; Sara Hansard, the Washington bureau chief of Investment News, Crains Communications; John Bone, vice president of CRA International and a guest of our speaker; Molly Preston, wife of the speaker; Melissa Charbonneau, vice chairwoman of the Speakers Committee.

And skipping over our speaker for just a moment, Hale Montgomery, Speakers Committee member who organized today's event. Thank you so much Hale. Renuka Rayasam, assistant editor of *Kiplinger Letter*; Diana Marrero, *Milwaukee Journal Sentinel*; and Chuck Lewis, bureau chief of Hearst Newspapers. Thank you all for coming. (Applause.) And the world will end-- I beg your pardon. I forgot to introduce head table guest, Jack Kemp, former Secretary of HUD. (Applause.)

The monumental housing collapse that we've all watched and worried over remains at the core of the nation's broader financial woes as we know. It even has some rippling effect on the global economy. An estimated one million homes failed to foreclosure last year, and the rate is expected to rise to more than two million this year. Another shocking statistic – in July, about 45% of all California home sales were foreclosure re-sales.

In some communities, abandoned homes with trash-strewn yards and mounting crime rates serve as stark symbols of the housing industry's crash. Home values in many areas have gone from boom to bust in the last two years. They indicate that one out of every four homeowners now owes more on his or her mortgage debt than the value of the house, which we call underwater mortgages.

So how does one turn around an industry giant where more than $14 trillion dollars (yes, that's *trillion* dollars) of mortgage debt is currently outstanding in the U.S.? Most of that of course is not in imminent danger of failure, but the rescue task nevertheless is huge. A brigade of government agencies and private entities has mobilized to begin programs designed to directly assist qualified property owners to revise troubled mortgages into sustainable loans that benefit both the borrower and the lender.

The Department of Housing and Urban Development is the center of a number of these initiatives such as Hope for Homeowners and FHA Secure. But some critics feel the programs are not enough to bring a reeling giant back to stability. We'll leave that question to our speaker, Steven Preston.

He came to HUD in June after a tenure as the head of the Small Business Administration. Earlier in his career, Preston was executive vice president of ServiceMaster, a multi-billion dollar corporation whose businesses include TruGreen Chemlawn, a lawn care company, and Terminix, a pest control company. Prior to that, he worked as an investment banker at Lehman Brothers.

At the helm of HUD, rather than heading the agency's traditional role of promoting new home ownership, Preston now counts as his number one priority the task of helping families stay in their existing homes, mitigate losses, and avoid foreclosure. It's a tough job. And ladies and gentlemen, please help me in welcoming to the National Press Club podium, Steve Preston, Secretary of the Department of Housing and Urban Development. (Applause.)

STEVE PRESTON: Thank you, Sylvia. I'll have to take that Lehman Brothers reference out of my bio. (Laughter.) I left in'93. It keeps following me. I want to thank the Club also for inviting me. I understand it's your hundredth year. Congratulations on that. Obviously you all provide a terrific service and these forums are always so wonderful.

I'd also like to recognize my wife, Molly, and Jack Kemp, who is not only a former HUD Secretary, but has been a good friend, a great advisor. Jack, thank you for your constant focus on housing issues. I can tell you all, he did not waste the 15 minutes he had next to me in sharing ideas with me. So we're already moving forward there.

I also want to recognize Bruce Katz and Roberta Achtenberg, and your table. We have people from the Obama transition team here. I just want to say, we've had a terrific working relationship with this team. The President made very clear to all of us nine months ago that we needed to begin putting in place strong transition plans, work on an orderly transition. The team that we're working with has been terrific. And so I just want to thank you all, and make sure that you take notes, because I have a lot to say today. Okay? Good.

So before I jump into some thoughts on where we've been and where we're heading, I'd also like to begin by celebrating a recent accomplishment at HUD, which is a new rule under RESPA, which is also known as the Real Estate Settlement Procedures Act. It's just a simple document. It's got two pages of information and a tool at the backend.

Now, let me tell you a little bit about this. At the center of the crisis we face here are millions of individual decisions made by borrowers at a closing table, many of whom unfortunately did not have the tools they needed to make responsible decisions. Unfortunately, I've had a chance to speak with dozens of housing counselors and distressed borrowers across the country. I've consistently heard stories from people who didn't understand the real terms of the agreement that they were getting into, or the true cost of their mortgage.

It's not surprising when you think about what's happened over the past few years. Mortgage structures have become increasingly complicated. The lending process has become increasingly automated. And lender behaviors have often focused little attention on the needs of the borrowers.

Up to now, there hasn't been a standard disclosure requirement for lenders that is complete and consistent. So it's been very difficult for borrowers to make fully informed decisions. It's also been difficult for them to compare one loan to the next.

Well, RESPA includes something called a good faith estimate (this is what I just held up) which will require all mortgage originators to provide this to anybody who is seeking a loan. Borrowers will know their closing costs, their interest rates, and their monthly payments. They'll know whether or not the rate can change or whether or not the principle balance can change. And they'll also know whether or not there are pre-payment penalties or balloon payments.

So the good faith estimate will provide a clear statement that itemizes the closing costs, and it limits the increases in certain of these estimated charges at the closing table. It'll offer a much higher degree of transparency and certainty, and it will also allow Americans to shop one lender to another on the same terms, and understand what they're getting in.

The rules was developed with input from consumer groups and industry after a very long and rigorous, sometimes contentious review process. It was first announced, right here in this room actually, back in 2002 by then Secretary Mel Martinez. And I'm pleased that I had the opportunity to call former Secretary, now Senator Martinez, let him know that this rule was completed. He was thrilled. And I have to say, I think this was a big day for American homebuyers.

Now, I arrived at HUD 166 days ago. And before now, I really never knew how much could transpire in 166 days. And at that point, the nation was already facing an expanding crisis. Foreclosures were on the rise as more and more subprime adjustable rate mortgages reset to unaffordable levels. And loan origination was at its lowest level in seven years. Home prices continue to fall. We're all familiar with the terrible spiral that led to an unprecedented state of financial turmoil as large financial institutions were unable to secure liquidity, which is so desperately needed to grease the wheels of our economy. Certainly there has been significant intervention by the Federal government on an unprecedented scale.

The Treasury has designed $250 billion dollars to infuse equity into our financial institutions. The Federal Reserve is injecting hundreds of billions in liquidity into the marketplace. And the FDIC has provided sweeping guarantees for bank deposits and their obligations. More specifically, the mortgage markets have remained open, but almost entirely due to government support.

Today, The United States government supports about 90% of the new mortgages in our country through the government sponsored enterprises, the GSEs, and HUD's Jennie Mae and Federal Housing Administration. By placing the GSEs in conservatorship, Treasury also has the authority to inject up to $200 billion dollars to support their equity needs. And it can also help them with liquidity by guaranteeing lending and purchasing mortgage backed securities.

Now, these responses as well as other Federal programs have been absolutely critical for American families who need a loan to purchase a home, or to refinance out of a mortgage that they can't afford anymore. And I'll discuss this in a little bit more detail in just a minute.

The private sector response has also made very important progress in reducing foreclosures, specifically to help families who have already begun to enter foreclosure. One such program is called the Hope Now Alliance, which is a voluntary private sector effort to contact homeowners in trouble and help them stay in their home, often renegotiating the mortgage.

Almost two and a half million loans have been reworked under this alliance since 2007 in July when it was launched. Now, earlier this month, the Alliance also announced a new plan to speed up modification to hundreds of thousands of borrowers. It includes all Hope Now partners, which represent 94% of subprime loans in the country as well as the GSEs, so in other words, the vast majority of the industry.

It is a further migration away from working one loan at a time to a much faster, more streamlined process that allows the lenders to modify mortgages in bulk. As a result, this agreement has a potential to help a large number of borrowers at one time.

In addition, a few Hope Now partners – Bank of America, JP Morgan, Citibank – have recently announced additional steps that their firms are taking to help homeowners. Now, even though the response from Washington and from private industry has been very extensive, saving millions of homeowners from foreclosure, there is still a gap between expectations and results. And that exists for two reasons.

First of all, the response has not kept up with the need. Many Americans who should be getting help are not getting help. Borrowers and housing counselors all across the country have expressed concerns that servicers are difficult to reach or they're unwilling to help them. Some have added, not enough capacity of well trained people to help borrowers on an individual basis. Many have. Many servicers have been reluctant to act because of ambiguous servicing arrangements with investors. And as a result, borrowers are falling through the cracks.

The measures I just mentioned by the Hope Now Alliance, by many of these major lenders, by the GSEs, are designed to address these issues. And we are watching very closely to see if they bear tangible, significant results helping the people who so desperately need that help.

Second, even as we continue to expand our response, the expectations for a response have been unrealistic. Many people have not accepted the implications of a very significant supply/demand imbalance in many of our markets, driven not only by foreclosures, but also by over-building. In addition, some foreclosures cannot be prevented. Many people have much more debt of all kinds than they can afford. We hear this consistently from servicers. Moreover, many homes were built in speculation and owners are walking away because the homes are now worth less than the mortgage they owe. Nonetheless, I do believe that bigger steps forward need to be taken and we have an opportunity to do that.

So how has HUD responded to the crisis? I said I arrived 166 days ago. I also have 62 days left to go. So I knew my time was short. I knew the list was long. And we still have some time to get some things over the line here. From day one, it was clear that I needed to listen very hard — very hard to our customers, very hard to our employees, to stakeholders in the various industry groups that we work with, as well as our legislators. And I needed to do that and work with my team to chart a very clear path forward very, very quickly.

So in doing so, we launched an aggressive 200-day plan called Impact 200, which is a set of focused, results-oriented initiatives that engage the entire organization at HUD. While Impact 200 addresses opportunities in a number of our program areas, the overwhelming focus has been to ensure that HUD serves the needs of American homeowners during a time when they're either losing their homes or at a time when they have relatively few options to finance a new home.

Within the last year, FHA has helped more than 435,000 families refinance into a fixed rate, 30-year FHA-insured mortgage. Many of these people had been trapped in the stranglehold of a mortgage that they could no longer afford, or about to no longer afford as they were looking at a reset. Over the past year, HUD has provided over $200 billion dollars in loan guarantees. That's more than three times the number we saw just a year ago.

HUD began expanding FHA insurance to allow delinquent borrowers who were late on some of their payments to begin participating in our programs in August of 2074(?). That had never been done before. In addition, FHA loan limits have been increased significantly so that we can begin helping families in high cost markets where we had effectively been shut out because our loan limits were too low.

We further expanded our efforts with the Help For Homeowners program, which was establishing in the Housing and Economic Recovery Act that was signed into law back in July. This program is designed to provide additional help to those homeowners who would not have been able to qualify for FHA mortgages otherwise, many of whom are seriously delinquent. Borrowers who use the program must structure the refinanced loan to ensure that there's equity in the home. They have to ensure that the loan is affordable to the homebuyer. And they have to make sure that there are no remaining liens on the home beyond that initial mortgage.

The program is less than two months-old. We've seen a lot of lenders and a lot of borrowers express interest. But because of strict guidelines and a number of unique and specialized requirements that were in the original law, few lenders have actually signed up and few borrowers are submitting applications. So clearly we needed to make meaningful changes to the programs, to this program.

Now, the Emergency Economic Stabilization Act of 2008, which was passed in September, provided us with the authority to make many of those changes. So today, I'm pleased to announce those changes that we think will help us reach more American families in need.

First, the program requires lenders to write the loan down to no more than 90% of the home value today. Now, we have heard from the industry that the size of the required principle write-down has been a barrier to participation in the program. And in many cases, by requiring people to write that loan down to 90% of the home value, the refinance deal is no longer more attractive than a foreclosure. And that's not what we want. We want people to get a refinancing.

So we will increase the acceptable loan devalue ratio from that 90% up to 96.5%. And that puts it into alignment with our other HUD programs. To do that, the borrower continues to have to make sure that that loan is affordable to the homeowner. And our standard for that is, no more than 31% of the borrower's income can be in the form of payments on that mortgage. In addition to that, no more than 43% of their income can be for all of their debt payments.

We think it's important to, not only look at the cost of the mortgage that they're getting, but the cost of their overall debt burden. And as a result, we get a much better refinancing. However, we are going to continue to require that loan levels go down to 90% on Hope For Homeowner loans where borrowers have higher debt costs. And that will include borrowers with a debt to income ratio as high as 38% on the mortgage and 50% for all debt.

Secondly, currently subordinated lienholders must release their liens in return for a share of the appreciation when the home is sold. So in other words, if you're a second lienholder, the home is sold a few years down the road, the only payout you get is through the-- a portion of the appreciation of that home. It's very confusing for the borrower. It's confusing for the lender. And it creates a lot of uncertainty to the lienholder, and it's very difficult to manage. So going forward, we will offer subordinate lienholders an immediate payment in exchange for releasing their lien to permit more borrowers access to the program.

Third, we are going to allow lenders to extend the mortgage term from 30 to 40 years. Extending out the amortization period will reduce the monthly payment enough to make loans more affordable to people who can't qualify for the program otherwise.

So these changes are a big step forward. They're very much in response to what we heard from borrowers and what we heard from industry players. These changes will not make the program perfect, but they'll improve it significantly. The program is still expensive to use. And because of that, it will limit its reach. As a result, we continue to work with our partners within the Administration and look for options to reduce the fees in the program.

In addition, we will urge Congress to give HUD the flexibility to manage some of the other administrative complexities of the program. And I'm not going to get into the detail. But there are other aspects of the program that just procedurally make it difficult to use. We'll ask for authority to begin to work through those, once again opening it more up to industry.

Now as recently as 2006-- I talked through all these changes and all these volumes levels, it looked as if FHA had become all but irrelevant. We were insuring about 2% of new mortgages at that time. New loan products with scant information requirements, lax underwriting standards, enticing teaser rates made the old FHA fully documented 30-year fixed rate mortgage look like a bit of a dinosaur. But all that's changed. And now FHA most recently is insuring about 20% of the new mortgages in our country. And as I mentioned before, our volume is more than three times what we were looking at a year ago.

Now, when I came onboard because of that increase, it was very clear that the massive increase in loan volume was taxing our capacity at HUD. We have worked very aggressively in a very short period of time to streamline inefficient business processes, to hire more people quickly, and to expand our IT infrastructure in order to handle and expand for the dramatic load increase we saw. I'm proud to say that our team led by FHA Commissioner Brian Montgomery has moved very quickly to bolster HUD's capacity to handle all this new business.

The financial crisis has also highlighted the need for more housing counseling. Good counselors can take distressed borrowers from a point of confusion and despair to a point of clarity and hope. Housing counselors are equipped to help people in financial difficulty figure out how to manage their finances and plan a path forward which may include a loan workout with a lender. The President has been prescient here. He has steadily increased funding. Funding has gone up 150% since he took office. And thanks to the economic stimulus and housing legislation, there is now about $410 million dollars available for housing counseling. We know it works. It's important for us to support these efforts.

In addition, HUD has been a leader in loss mitigation, contacting FHA-insured homeowners at the first sign of trouble to work out solutions. In 2008, FHA servicers completed about 100,000 loss mitigation actions, saving nearly all of those people from foreclosure. In fact, a much lower percentage of families who have a delinquent FHA loan ultimately end up in foreclosure, a much lower percentage than the rest of industry, specifically because of the aggressive loss mitigation actions that we take.

Now finally, through the neighborhood stabilization program, HUD is providing almost $4 billion dollars in targeted emergency assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise because sources of blight within their communities. I announced the allocation of this money in September. Communities and states are drafting plans for these targeted funds to be used to purchase foreclosed homes at a discount, and to rehabilitate or redevelop them in order to respond to rising foreclosures and falling home values.

We expect that the recipients will be submitting their plans very soon, and that this money will actually begin going to work in those communities that need them by the beginning of the year.

So where do we turn from here? Let me turn now to some of the issues I think we need to address as we move forward. Most of our public discussion has necessarily been focused on the crisis right in front of us. But we have learned a tremendous amount about our system of mortgage finance and the institutions that support it. We need to incorporate that understanding as we establish our goals and as we chart the course forward.

First, HUD will certainly continue its aggressive efforts to provide a set of tools to address the crisis. FHA insures almost half trillion dollars in mortgages. Jennie Mae guarantees $600 billion dollars in securitized loans, much of which come from FHA. Both are increasingly important to Americans who need mortgage capital. And to that end, FHA needs ongoing reform in a number of areas.

First, we must maintain FHA's financial stability, and we have got to ensure that it remains a self-funded program. Congress took a big step forward in banning a practice that was fueling about two-thirds of our delinquencies, namely, loan resellers were providing down payments to borrowers. As we worked through this portfolio of existing loans, we're going to continue to see losses. And those losses will result in a reduction in FHA's capital account.

However, the path forward will include a stronger portfolio which are driven by new, higher quality loans that are being underwritten today. Unfortunately, unlike other insurance companies, Congress has prohibited HUD for at least one year from adjusting its premiums based on the credit risk of its borrowers. The most surprising thing about Congress's rejection of risk-based pricing was our evidence that showed that, on average, low income borrowers would actually pay less under a flexible pricing structure because they often have higher credit scores than higher income borrowers who need mortgage insurance.

So ironically, the very people who can least afford the higher fees and have the credit history to justify lower fees are the ones that are being harmed. So Congress needs to eliminate this prohibition or let it lapse. I mentioned just a minute ago the important progress FHA has made to improve its operations. There is a lot more work that needs to be done. FHA must continue to move into the 21st Century on the operations front with focus on modernizing critical information technology that supports FHA's core business functions.

Currently we have a patchwork of systems across this agency. The core loan processing system, believe it or not, is still written in COBOL, older than some of our programmers, I think. The President has requested an increase in HUD's technology budget. Last year he asked for an increase that was cut by $65 million by the appropriators in Congress. The year before, in 2007, his request was cut by $40 million dollars. I've been, as I mentioned, at HUD for several months.

I ran the SBA for two years. Both are large financial support agencies. Our government institutions, especially those that operate large financial operations, need to have the infrastructure and the tools and the technology to run efficiently, to serve their customers effectively, and to provide proper oversight to protect the taxpayer. Congress must step forward and provide HUD with funding it needs to modernize its systems and deliver better services to the millions of people who rely on FHA for a mortgage.

HUD must also continue to drive forward with reengineering its business processes. These are designed to speed assistance to customers and provide employees with tools to do their jobs more effectively. We've already taken very big steps forward. For example, in a major area of our business that's particularly labor intensive, we're reducing the time it takes to process a loan from nine days down to one day. In addition, we're developing an e-mortgage plan that permits the entire FHA loan process to be handled electronically. In addition, we're working hard to complete a very detailed operations and technology roadmap that we think will be helpful to support the incoming administration. We have got to continue this important progress.

The greatest solution to a number of the problems we're facing right now I believe lies in the private sector. There is a strong economic incentive for lenders to support homeowners in their time of need. Many of you have heard it before, but lenders generally lose twenty-five to forty percent of the value of a loan when it goes into foreclosure. I mentioned the private industry response thus far. It has been very important. Millions of people have been helped by it. Many industry players have taken bold moves. Others have announced an intention to take bold moves. We need to see those announcements yielding tangible results — real people getting real help in large numbers.

If we don't see those results, I fear that either Congress, or, as we've seen, states attorneys general, will move to force the issue. So by taking a wait and see approach, I think there's genuine risk of a government reaction that could have a broader, longer term impact on the industry.

For example, there's been a renewed push to allow bankruptcy judges to modify the mortgages of troubled borrowers, effectively breaking the contractual relationship between a secured lender and a borrower. At a time when we need more buyers in this market, this change could increase the cost of lending and make it harder to afford a new home. Lenders would raise rates or require higher down payments and closing costs to accommodate the risk that a judge would unilaterally modify a loan. So as we look to the longer term, the first thing we need to do is work with private industry to continue to advance those initiatives.

Now, in the midst of all that we're facing, I also think it's important for us to take a deep breath, think about the longer term, and realize that owning a home can still be part of the American dream. Because I believe that a lot of that is getting lost in our messages. When home ownership is responsible, it is sustainable. Home ownership anchors us in our communities. It helps provide stability for our families. It should provide a nest egg of equity, whether it's saved for a rainy day or whether it's for retirement. It should not be drained out regularly through cash out refinancings every few years.

And while it's not popular right now to talk about the benefits of home ownership, we need to make sure that we don't throw the baby out with the bathwater in this crisis. So as we consider our home ownership policies going forward, we need to start by continuing to advance a system that provides American families with affordable mortgage financing alternatives in terms that they clearly understand. RESPA's a big step forward, makes the kind of progress that we need. It puts power in the hands of consumers. But more RESPA reform is also needed.

Our statutory ability to enforce this rule is limited to relying on other agencies and other regulators. We need Congress to give HUD civil money penalty authority to enforce the delivery of good faith estimates to prospective borrowers and ensure that lenders adhere to the original terms provided to borrowers.

We also need a statute that requires lenders to provide borrowers with at least the most important closing documents sufficiently before closing so that they can actually look at those documents and know what they're signing. These are very important steps forward for the consumer.

In addition, consumers need the tools and education to make responsible decisions. I believe we need to continue to step up our efforts to educate and assist consumers through housing counseling and financial literacy programs. We have learned housing counseling works. We've expanded our support for this each year. Together with the efforts of the President's Advisory Council on Financial Literacy, counseling is being used to better educate Americans about their finances and how to keep their homes. And it's keeping many people in their homes.

So I urge the next administration to build on our efforts, to expand the progress we've made on both of those fronts. Now, in near-term, the GSEs and government finance insurance programs like FHA will continue to be the overwhelmingly dominant source of mortgage finance in our country. I don't think anybody questions that in the near-term. But during this time, we also have to develop a thoughtful, more sustainable path forward that clarifies our objectives relating to home ownership and ensures that our institutions and our policies are the most effective means to reach those objectives. Very few people believe that the GSEs should return to their former structure. They had conflicting objectives. They presented massive risks to our financial system, risks to our taxpayers, and it led to unhealthy behavior that sadly will have repercussions for many years.

One of our first steps forward should be to bring mortgage liquidity back to the marketplace through institutions that are not dependent on government support. It may seem difficult to even think in those terms considering the massive rescue plans and failures that have occurred recently. It's all far beyond what anybody would have predicted, and much of it is based on breakdowns in our most sophisticated financial institutions.

But I'm undeterred in my confidence that well-functioning private markets must be the answer. The path forward will require greater trust among investors who need confidence and transparency into the assets that they purchase. Investors will need to know that what they are buying is what they think they are buying. And they need to have the tools to evaluate it.

And while it doesn't seem that it should be that difficult to achieve considering how long structured mortgage finance instruments have been in the market, we have seen a fundamental breach of trust. And it's going to take some time to restore it. If that trust isn't restored, then investors will not reenter the market to provide the capital needed for long-term growth in the housing sector.

In considering the future role of the GSEs, Chairman Bernanke put forward some very important thoughtful considerations last month in a policy formed at Berkeley. He said that the key objectives for reconsidering the role to include both minimizing systemic risk and putting in place the most efficient mechanism possible for providing mortgage credit necessary to sustain home ownership and a healthy housing sector.

We're learned a tremendous amount about the GSEs, about our system of mortgage finance, about the drivers of risk in that system, and about the need for oversight to keep a dynamic marketplace. That knowledge, while sobering at times, should be the basis of our path forward. The part of the market that's unaided by the government has all but gone away, but we need to bring it back stronger than ever before.

So lastly, as we look into the future, we need to be clear about our goals for low and moderate income homeowners, and determine the best way to support those goals. I think they're important goals. I think they're critical goals. Many of our programs have made all the difference in the lives of people and in our communities. And they continue to.

Now, I grew up in a family that sort of moved between renting and owning. Our family's first home was through a VA mortgage. And when we ultimately moved into a home where my family would be for many years, it was clear that there was a lot more sweat equity in that house than there was financial equity. It was a source of stability for our family. It anchored us in our community. And I hear a version of that story retold time and again as I go across the country, talking to housing counselors, talking to people who use our programs, talking to people who are incredibly proud to be in a home that they own.

And I think that it is critical that that understanding continue to inform our policy going forward. So we have a difficult road ahead of us. But I honestly believe we have a much better understanding than we ever have about the challenges that Americans are facing and the ways that both the private market and Federal government must work together to address those challenges. I thank you very much, and I look forward to your questions. (Applause.)

MS. SMITH: Thank you so much. Many, many questions here. On the homeowners program, I'm wondering if you can give us more concrete data. In other words, how many banks are participating? How many loans have been modified under the program?

MR. PRESTON: First of all, let me make one important distinction here. Loans are not being modified in these programs. And it's a very important distinction. When you think about a modification, is a lender going into an existing loan and making some tweaks to it to make it somewhat affordable?

When a lender comes into one of our programs, we finance them into a brand-new fixed rate 30-year loan. The first payment never changes from the last payment. And they have all the benefits of an FHA loan. So it's very different between a modification and a refinancing.

The Hope for Homeowners program has seen very low participation. We've got a lot of interest from lenders. We've got a lot of interest from borrowers. But the participation rate has been low, primarily for the reasons that I enumerated in the speech. And, you know, we've talked extensively with people from industry. We think this is a big step forward. And we're very hopeful that this will move the needle in participation rates.

MS. SMITH: Well, how low is low? Can you give us a number?

MR. PRESTON: I don't have the number with me, but it's very low.

MS. SMITH: And are you fairly confident that the loan to value changes that you're suggesting will be enough to spur on the lenders?

MR. PRESTON: I'm confident that it will increase participation significantly. It's not only that, it's removing the complexity for the second lien. It is cleaning up some of the standards underneath all that. I do think however that an important additional step forward will be addressing the fees in the program, because they are very high. And I think to a degree, that will deter participation by some people.

MS. SMITH: Several questioners want to know if you support FDIC chairman Sheila Bair's proposal to direct a portion of the $700 billion dollar bailout for banks to helping homeowners who are facing foreclosure. And if not, why not?

MR. PRESTON: Well, I think there's a lot-- There's some interesting things to look at when we look at this program. So let me first-- I'll describe it, because I don't want assume everybody understands it. Basically what the program says is, you as a lender, if you look at all of the delinquencies in your portfolio, if you take all those delinquencies and you write down the annual cost to the borrowers to make them affordable, there's a standard of 31% payment to income ratio. And we as the Federal government will now insure up to 50% of all your losses from foreclosure. So you make the loans more affordable, and we'll absorb up to half of the losses.

Now there's a couple things to highlight here. Streamlined modifications, broad based modifications I think are an important factor in moving ahead to address the needs of American homeowners. But that's very similar to what we heard last week through the announcement by the Hope Now Alliance, by Freddie and Fannie, and by moves that have taken place by most of our major lenders. And so one of the things I think we have to be careful not to do is to preempt moves that the private sector has already taken by agreeing to pay for them. We're seeing massive moves already in the private sector.

So I think that's important to consider. Secondly, once again, I want to highlight the difference between a modification and a refinancing because there is-- You know, this program provides potentially a temporary reduction in the cost to the homeowner with a subsequent increase in rate. So we've got a period of time when the loan's been modified to make it more affordable. For that, the government is taking 50% of the risk. And I think it's important for us to consider all the implications there. But my big concern is stepping in front of the private sector and paying for actions that they would be taking on their own.

MS. SMITH: How much of a payment will you ask for second liens in the changes you mentioned?

MR. PRESTON: The payments, I don't have the exact payment at this point. But the payments are going to be de minimus, you know, pennies on the dollar. So most of these second lienholders don't have a significant amount--don't have an expectation for a significant return. And so I think we'll be to do so with a relatively low cost

MS. SMITH: I'm told that the changes that you're proposing for the Hope for Homeowners program requires the approval of four agencies. Do you have the support from Treasury, FDIC and others?

MR. PRESTON: The changes we're announcing have been approved by all the members of the board. You know, frankly I had hoped that the changes would be broader, that we'd be able to go to a 38% debt to income ratio and 50% at the backend. I think we would have been able to bring in people. We would have been able to help more American families. I think there was some concern at the board level about going that far. I think this is a big step forward. I wish we'd taken a bigger step forward.

MS. SMITH: Questioner says, lenders have complained about the program's complexity. For example, they must provide two years worth of financial records to prove borrowers haven't intentionally defaulted on their loans or lied about their income in the past. And they can't extend the program to consumers with multiple homes, even in cases where a homeowner was forced to move before closing on a hard to sell house. So the questioner wants to know, which of those, if any, do you support making changes?

MR. PRESTON: You know, I mentioned in my opening remarks that there are any number of restrictions in the program that are actually statutory. And, you know, I think there's always a balance when you're drafting legislation between making sure it gets what you need or it enforces the right standards into a program. But sometimes I think we see that the statute goes too far in dictating a program. And what we're going to ask Congress to do is to provide us greater flexibility to work with industry and to work with borrowers to understand what the impediments to further usage of this program are.

So that's a partial list actually. I think we're going to try to actually reach further to open up the program a little bit more broadly.

MS. SMITH: Questioner says, under the Hope for Homeowners program, will the servicer be obligated to participate?

MR. PRESTON: No. The way this works is, if you have a loan in your portfolio and somebody is unable to afford the loan on the existing terms-- Let's say it's gone from 4% teaser rate to 10%. You have the ability as a servicer to refinance that borrower into a fixed rate FHA loan at a lower rate. So it requires the lender and the borrower to work out a refinance loan. There's not a requirement that the lender participate.

MS. SMITH: If I understand it right, the Hope for Homeowners program sounds a little bit like a balloon loan. Is that about right, that changes would be for a fixed period of time, and then it would revert back to what got the homeowner in the mess in the first place.

MR. PRESTON: Actually it's the opposite. It is, first payment the same as the last. And it's a very important point, because a lot of times when we're seeing these modifications take place, we're helping people through one or two or three years. And if the modifications aren't done correctly, we're effectively re-increasing a rate over time and deferring the problem until a later point. The important thing about our program is, you come into a new loan with a fixed payment and it never changes.

MS. SMITH: Several questions about the good faith estimate program. Questioner says, this won't take place till 2010. And some people have criticized that it's not transparent for consumers. For instance, it is...(inaudible) the yield spread premium, but doesn't explain what that is. So why not till 2010? And what about the yield spread premium issue?

MR. PRESTON: The 2010 issue, you know, we really worked back and forth on this. Many people in industry felt like they needed time to train their workforce, to update their system and work through a broad network of people to be able to deliver this and be accountable for it. So we allowed a full year for implementation.

That having been said, we are going to be working aggressively with lenders to encourage them to implement it sooner. We're already working with housing counselors to provide them with a copy of the good faith estimate and encourage their people to take the form to lenders so that they can use it as a tool. I have to tell you, this form has been through innumerable user testing groups. And we've gotten a tremendous amount of feedback. And I have to tell you, I think this is about as clear as you could possibly get on a form. There's always a balance between how much information you give them, you know, balance between amount and complexity. I really do think this strikes a terrific balance. And once again, it was done with a tremendous amount of user testing, which validated our results.

Interestingly, there was some concern on the part of the mortgage brokers that people would take a dim view of broker fees upfront. So in our user testing, we had people look at a number of different loan structures, many of which had these fees associated with them. In over 90% of the cases, the borrower, based on the form we have in place, was able to choose the best loan for them, the cheapest loan, which resulted in a significant savings to them. So we're pretty confident that this is going to be an effective tool in helping people make the right decisions for the right reasons.

MS. SMITH: And if it's so good, why is the industry so reluctant to implement it until 2010? I mean, what pressure can the government bring to bear to make that deadline a little sooner?

MR. PRESTON: Well, I actually think many people in private industry will adopt it sooner. And I think many people have viewed this as a helpful tool for the consumer. They realize it's an important step forward. And I think we'll see implementation sooner. But once again, the reason we gave industry a full year was because, given all that the industry's going through right now, we wanted to balance the burden to industry with the value to the consumer. But we're using other measures to get implementation on a much more rapid basis.

MS. SMITH: You mentioned there's no penalty for compliance. Would that require congressional action? And if so, have you encouraged that?

MR. PRESTON: There can be penalty for noncompliance. I mean, you can see class action suits. States have authorities. Various other regulators, if they take interest, can put this into the review process and use it as a measure to force compliance. We don't have the ability to charge civil money penalties. And since we are the overseer of the process, we think that we are, in many ways, the friend of the consumer on this issue. We would like the ability to do that. That requires congressional authority. And we will be recommending to Congress, among other things, that they provide us with this authority.

MS. SMITH: And what are those other things that you will ask Congress to modify?

MR. PRESTON: We're working on the list. I promise I'll get it to you when it's finished.

MS. SMITH: Will that be in the next 66 days?

MR. PRESTON: I think it will be. Yeah, I think it will be.

MS. SMITH: Questioner wants to know when HUD will provide guidance to the industry on implementing the new rule, the RESPA rule. And when can we expect to see that guidance? And they're talking about policy statements, FAQs, and advisory opinions.

MR. PRESTON: Yeah, the rule is already on file at the Federal register. So I think it's pretty significantly laid out there. I think most of what industry needs to understand is already incorporated in that.

MS. SMITH: Questioner says, do you think pre-approved mortgage applicants should have to list regular monthly living expenses such as childcare, cellphone, and healthcare costs to see if the loan would take up more than 38% of the family's monthly net income?

MR. PRESTON: Well, you know, I think loans should be fully underwritten. And I think a fully underwritten loan understands what the borrower's income is relative to the total picture of their obligations. And that's one of the reasons that in our standards, we actually look at the cost of the mortgage, as well as the cost of overall debt.

Now clearly, you know, the remainder of that goes to other living expenses. You know, I think we're going to see increasingly, as we already have seen, a return to really fairly straightforward underwriting standards that prevailed, you know, prior to 2000. And I think that's very healthy for the industry. And we've already required them. We'll continue to.

MS. SMITH: The questioner says, what do you say to the criticism that present HUD loan mitigation and loan modification programs to prevent foreclosures as well as other rescue efforts are far too meager to fix the vast housing problem?

MR. PRESTON: I think I covered that pretty extensively in my comments. But I think there are a couple of things. I think it's important for us to understand the efforts that have taken place and the tremendous value that they've provided to millions of people who wouldn't be in homes today. Secondly, I think it's important for us to understand why the problem is bigger and why the efforts have fallen short, and to take that knowledge and to drive a higher degree of effectiveness going forward.

So in that middle column, what I'd say is a couple of things. First of all, the overall housing problem is vast. I mean, the housing market is enormous. There's, you know, only a certain amount that the Federal government can do to support it. But we have provided-- As I mentioned, you know, the Federal government supports 90% of new mortgages in our country. We are the provider of liquidity to homeowners. We have numerous programs in place to support local communities. I mentioned the neighborhood stabilization program. We're getting money to communities to support that. But there is a significant oversupply of homes, driven not only by foreclosures but over-building. And that is a process where we are going to have to continue to work through the supply/demand imbalance that exists in many of our communities across the country.

Specifically as it relates to foreclosures, the wave of foreclosures has just been bigger than the response to the problem. And that's why I think we're seeing so many servicers and lenders begin to launch these streamlined modification programs where they can go to their entire portfolio and look at the delinquencies en masse and have one or two or three metrics that they use to automatically modify those.

So what you're seeing is, instead of individuals going to their lender, sitting down with them, re-documenting an entire loan, refinancing an entire loan, these are people in many cases who are getting a letter that says, "If you agree to these basic terms, we'll reduce your monthly payment by $300 dollars. Do you agree?"

So industry is now beginning to pivot to these broad-based measures. And it is helping a lot of people. But we have got to see a real tenacious commitment to making that happen. And we also need to continue to break through some of the confusion between services and the investment community. Because I think we've made a tremendous amount of progress there, but I think we have more to make. And that continues to be a source of tension. I think we're close. But, you know, I'm optimistic that a lot of people and a lot more people will be getting support through these broader programs that private industry is making. And once again, you know, I continue to highlight the fact that, you know, we've refi-ed over 400,000 people in the last year. And many of these people are coming out of mortgages that they can't pay. And they're getting into a fixed rate, 30-year mortgage that's allowing them to stay in their home.

MS. SMITH: Mortgages outside the U.S. routinely go for forty to fifty years. Is there official support for mortgages of that duration in the U.S.?

MR. PRESTON: Well, I think you've seen that many of our programs now to re-fi these loans have gone out to 40 years. So I think the step forward for Hope for Homeowners was a big one where we agreed to allow a 40-year loan. You know, when we took a look at that, that was the equivalent, you know, in one case, of reducing the interest rate about three-quarters of a percent, and, you know, roughly speaking, you know, seven to eight percent of the monthly payment was reduced by that.

So that can have a pretty big impact on borrowers. And I think increasingly what we're trying to do is think of those types of modifications or changes to loans that would make them more affordable.

MS. SMITH: Will FHA Secure be extended beyond December 31st?

MR. PRESTON: That's unclear right now. What we've done is we've expanded Hope for Homeowners. We're expecting that right now to be our primary program to absorb delinquencies. We continue to work with industry and think about and review whether or not FHA Secure is the right path forward. I think it's important to note, as much as we like that program, we've had a total of 4,000 people who are delinquent who've participated in the program. So it has really not met the need, while the rest of the FHA refinances I mentioned have been over 400,000.

So we're concerned that the program as currently structured isn't reaching the people that we need. But we're also reviewing whether or not in addition to Hope for Homeowners, we need to expand FHA Secure.

MS. SMITH: Questioner says, do you believe that apartment renters living in HUD-subsidized and FHA-insured housing should have an equal opportunity to build credit with rent payments?

MR. PRESTON: I'm not sure I understand the question totally. Yeah, I mean, I think it would be-- I think what the questioner is asking is, shouldn't rent payments count toward-- shouldn't rent payments be considered as part of building credit like mortgage payments. I think to the degree that people are showing consistency in their ability to pay their bills, I think it's an important factor in building a credit history, in building, you know, a record that would show that you are a financially responsible person. I think that would be important.

MS. SMITH: What sign should we look for that would signal the bottom of the mortgage crisis, that we've reached the bottom?

MR. PRESTON: Well, I think not only is that an important question for the housing market, that's an important question for the overall economy. If you look at downturns and recessions over time, you know, during a period of economic weakness, typically what you see is the housing market kind of come down like this, and then begin to come out sort of midstream. It tends to be a leading indicator, I think, to a broader change in the economy.

And so it is one I think that we should all be keeping our eyes on. I think many of us thought that this time next year we would be seeing a much more robust housing market. And we had already begun to see many of the signs. There were parts in the country where we were beginning to see housing appreciation, some parts in the southeast, some parts toward the middle part of the country. And those signs are very encouraging. We saw increases in contracts written in certain months this summer.

Right now, I think we're all taking a bit of a wait and see attitude because of what has happened to our financial system in the last couple of months, and the broader implications that has for the economy. So it's very difficult to say at this point. What is very important going forward is that we continue to keep liquidity available to homebuyers who need it. And that's why it is so important that the GSEs remain viable, that they remain actively in the marketplace, that the FHA programs are functioning effectively. Because those are the sources of liquidity in our country today. And if there's anything we need, it's low cost capital for homebuyers in a marketplace that is desperately looking for homebuyers. So that will be an important part of our focus, and I think needs to be a critical part of the near-term policy for mortgage finance in the country.

MS. SMITH: What advice would you give someone who is a first-time buyer in this market?

MR. PRESTON: A couple things. First of all, I would recommend that you sit down with a housing counselor and fully understand what you're getting into. Secondly, I would recommend that you really think hard about your ability to pay for your home, to be a responsible borrower. Because we have seen so much unfortunate behavior in our country in the last few years in the housing market. And I fear that in some cases, it has changed attitudes negatively.

You know, I got the question-- Yesterday, I was on Squawk Box up in New Jersey. One of the hosts asked me, "What do you tell the people who are paying their bills, who are responsible borrowers? You know, shouldn't they get a handout? You know, what do they think?" And I said, "First of all, I think we say thank you, but that's the right way to go." That's 97% of the-- More than 97% of the people in this country are not in foreclosure. And we have to understand that promoting responsible home ownership through all the programs we have in place, but also through attitudes in our country, is critical to stabilizing this marketplace and to having a viable marketplace going forward. It shouldn't be viewed as something that's sort of optional to pay these bills.

And as much as we talk about this foreclosure crisis, it's a relatively small percentage of the homes. And we have got to make sure that that percentage does not go up significantly. It's also a reason why we have to think very hard about some of the moral hazard involved in any of the policies we roll out. Because we could be smoking out people that can pay their bills. So I tell people who are buying a new home, you know, be a responsible homeowner. Know that you can be a responsible homeowner. And I think that's probably one of the most important pieces of advice I could give them.

MS. SMITH: We're almost out of time, but before asking the last question, I have a couple of important matters to take care. First, let me remind our members of our upcoming speakers. On December 16th, Bishop Katharine Jefferts Schori, presiding bishop of the Episcopal church will be here. On January 13th, James Mulva, president and CEO of ConocoPhillips. And on February 10th, Dolly Parton will be our guest.

Second, I'd like to present our speaker with the coveted National Press Club mug.

MR. PRESTON: Thank you.

MS. SMITH: And for our last question, you showed when you took on the HUD secretaryship that you're willing to take on a big challenge and an uphill fight maybe. When you leave office here, will you seek the Republican nomination for Governor of Illinois, an equally hard challenge I would think?

MR. PRESTON: First of all, Dolly Parton can't be as interesting as this topic. Look, you know, I am really 200% focused on this job. I really have spent very, very little time thinking about the next thing. And I think it would be a huge disservice to the President and to the people that we are all here to serve if at this point, even at this late date in the Administration, those of us who are in the middle of a big problem were running out sort of chumming the waters on the next thing. So I'm looking forward to taking some time off with my wife and family after this, and then I'll think about the next thing.

MS. SMITH: An excellent sidestep answer. Thank you so much. Thank you very much for coming. (Applause.) Thank you very much. Thank you for coming today. I'd also like to thank the National Press Club staff members, Melinda Cooke, Pat Nelson, JoAnn Booz and Howard Rothman for organizing today's event. Also thank you to the Press Club Archives and Library for their research.

Also, a video archive of today's luncheon is provided by our Broadcast Operations Center. And many of our events are aired on XM Satellite Radio and are available for free download on iTunes, as well as on our website. Non-members may purchase transcripts, audio and videotapes through our archives at archives@Press.org. For more information about the Press Club, reach us at www.press.org.

Thank you very much, and we’re adjourned. (Gavel sounds.)

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