THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release February 18, 2009

PRESS BRIEFING
BY TREASURY SECRETARY TIM GEITHNER
HUD SECRETARY SHAUN DONOVAN
AND FDIC CHAIRMAN SHEILA BAIR
ON HOME MORTGAGE PLAN

Dobson High School
Mesa, Arizona

9:15 A.M. MST

MR. GIBBS: Before I get my customary AP question, though this is off camera, we're going to change the rules and the briefing is on the record. So let me bring out our participants.

SECRETARY GEITHNER: I'm just going to start with the broad imperative: Economic recovery requires actions on three fronts. The President signed into law yesterday this very powerful package of investments and tax incentives to help keep people working, help businesses stay operating. This is a absolutely necessary part of recovery.

As a complement to that, we're going to have to take further actions to strengthen our financial system, to make sure it's providing the credit necessary to spur recovery. You're going to see additional details from us in the coming weeks on how we're going to do that -- again, how we're going to make banks strong enough they can support recovery, how we're going to provide direct support for the credit markets that are so important to small businesses lending, to consumer lending.

These are necessary but not sufficient conditions to help address the housing crisis. So the President is announcing today a very comprehensive plan of initiatives to help make housing more affordable and help, again, arrest this very damaging spiral we're seeing in the housing markets as a whole.

This program has three important parts. Let me just walk through these very quickly. The first is a program to allow Americans who cannot take advantage of lower interest rates today to refinance. Right now if you're a -- got a typical mortgage, but the value of your house price has declined, you're not able to take advantage of lower interest rates. So this program, which we think will reach between -- could reach between 4 and 5 million Americans -- will help people take advantage of lower interest rates and, in that context, provide substantial reductions in monthly payments.

The second program is a $75 billion program of incentives and measures to help improve affordability of mortgage payments for those families most at risk of foreclosure.

My colleagues, Shaun Donovan and Sheila Bair will provide more details on that program. You have a detailed fact sheet that shows how that works. It's a combination of powerful incentives to lenders to participate and some conditions and other inducements to try to make it work.

This will reach between 3 and 4 million Americans. Again, the focus is on improving affordability in mortgage payments for people at risk of losing their home.

The third important part is some additional financial support to Fannie Mae and Freddie Mac. These two institutions, in effect, are the mortgage market today. They account for the vast bulk of mortgages originated today. They play a critical role in these markets, and we need to make sure that they have the ability to play that role going forward. And so we've increased substantially, using the authority Congress provided the administration last summer, to increase our financial commitment. This will be important to helping keep mortgage rates down and is a very critical, important part of recovery.

This is -- all Americans have a stake in making this work, not just those Americans who were the victim of bad underwriting standards, or in communities where you've seen -- foreclosure. It has broad-based effects, again, by helping Americans take advantage of lower interest rates, and helping improve affordability, helping keep overall mortgage rates low.

Important to just emphasize the way this affects the economy as a whole: Two important effects -- again, by helping keep mortgage rates down and helping reduce monthly payments, you're putting money in the hands of Americans. In that case, it acts like stimulus. Second is we're going to help reduce the risk that housing prices fall more than they would otherwise fall. So

again, by keeping interest rates low, by making it more affordable for people to stay in their homes, and by reducing the amount of foreclosures ahead, we can reduce the risk that housing prices fall further than they otherwise would. Those two -- for those two reasons, again, all Americans have a stake in making this work.

This is necessary policy. It's smart economics. And it's just and fair -- because Americans across the country that were responsible in how much they borrowed are being significantly damaged by the actions of those who are less responsible, both people who borrowed more than they could afford, and banks that took risks they didn't understand and could not sustain.

I just want to end by complimenting Shaun Donovan, Sheila Bair, and a range of people across the administration who helped design this. They both have enormous credibility in this area. Sheila, I just want to say, was an early, powerful, pragmatic, creative advocate of action on the housing front. And I'm very pleased she was able to join the President and Shaun and I here today.

Thank you. Shaun, do you want to add anything?

SECRETARY DONOVAN: Thank you, Tim. As Tim has said, this is critical -- the announcement today is critical to getting the American economy back on the right path. And let's be clear, housing has been a significant part of initiating the economic slide that we're in, and will be a key part of getting us out.

Close to 10 percent of all American families today are either in foreclosure or behind on their mortgages. And to dramatize how important this is to the continuing slide in home prices that we see, estimates are that in December, 45 percent of all home sales were distressed sales -- 45 percent of all sales were distressed sales -- which is continuing to drive prices lower. So we have to get out of that spiral.

Here in Arizona, over 6 percent of all mortgages are more than 90 days late or in foreclosure -- so a crucial problem to be solved here, as well as across the country.

With the first two pieces of the announcement that Secretary Geithner has talked about, between our refinancing initiative -- or so-called "underwater" borrowers -- and our modification plan, mortgage modification plan, we will reach between -- up to 7 to 9 million American families. This is a smart, targeted investment which can reach and help to make more affordable more than $1.5 trillion of mortgage debt. Those 7 to 9 million families hold roughly over $1.5

trillion in mortgage debt. So we just have a scale that can have a real impact on turning the housing problems around in this country.

First of all, to focus on the refinancing portion, this will be focused on up to 4 to 5 million homeowners who have played by the rules, that have been making their payments on time. These families have seen, through no fault of their own, values in their communities on houses drop by 20, 30, 40, even 50 percent, and find themselves in a situation where even if they're holding a mortgage that is far above market rates, they cannot take advantage of refinancing down to what are really historically low mortgage rates that we see in the market today. This just isn't fair, and it's something that we will help to fix through the announcement today.

The typical family that has one of these so-called conforming mortgages, or Fannie Mae or Freddie Mac mortgages, that can re-fi to today's markets rates will save roughly $2,300 a year in lower interest payments, simply by refinancing to today's market rates. And let me be clear: These families have played by the rules; they're families that only have been victims of their houses falling in value and, therefore, their mortgages are close to or higher than the value of their homes today.

So that's the first. The second is a mortgage modification plan, in many ways, based on the pioneering work that Sheila Bair did at FDIC, to show that a streamlined, large-scale modification plan can have major impacts. It will reach between, we believe, up to 3 to 4 million American families. Let's be clear about the scale here. Our expectation is that -- we saw 2.2 million foreclosures, a record number, last year. We expect to see as many as 6 million foreclosures in the coming years. So between these two initiatives, reaching 7 to 9 million families is at a scale that can really begin to turn this problem around.

The modification program -- first of all, we must be clear that while this crisis in housing started as a mortgage crisis, in many ways, it has become a job-loss crisis, as well. And so the signing yesterday of the recovery plan, which will create about 3.5 million jobs, is a critical piece of getting housing back on track by getting people back to work. But beyond that, this modification plan does a number of things to make sure that up to 3 to 4 million families can stay in their homes and have affordable mortgages.

First of all, it focuses on the right people: investor-owners, flippers, speculators will not be eligible for the program; only owner occupants. Second of all -- and this is something that is I think very innovative about this plan -- is that we are saying for the first time that any borrower that is current -- you don't have to be delinquent to qualify for this plan. This is different from what's been

done in the past. What we've found in our research is that the earlier we can get to homeowners that are in trouble, the more chance they have at successfully modifying their mortgage and being homeowners in the long term.

And so we are providing new, innovative incentives for servicers to modify mortgages where people are current, where they haven't reached the state of 60 or 90 days delinquent, when they're more likely to fail. And those again are the most deserving borrowers because they played by the rules, they struggled to make payments, but they have made those payments and they haven't been able to benefit from modification programs before. So we are changing that.

Finally, we will provide a series of incentive payments for success both for owners where you can benefit from a $1,000-a-year payment up to five years -- if you're successful and succeed in your modification for up to five years, $5,000 that can reduce the principal on your home mortgage -- as well as incentive payments to servicers and lenders that if the modifications work over the years we will make payments to them as incentives to keep people current.

And in all, this will help, as I said, 3 to 4 million families. But let's be clear: This will also help millions of other families, as well. Recent research shows that neighboring homes to foreclosed homes lose as much as 9 percent of their value. So people who are not in danger of foreclosure still are suffering from nearby foreclosures. This will help those families, as well. Our estimates are that the average home -- not the average home in foreclosure, but the average home across the country will gain $6,000 in value relative to had this plan not been put in place.

And finally, the third leg of this plan which Tim has talked about, keeping the GSEs providing low interest mortgages is absolutely key. Together with FHA they represent more than 90 percent of the mortgage market today, all new mortgages issued. Combined with the $8,000 first-time homebuyer tax credit that was in the recovery bill signed yesterday, we believe these efforts can help to prop up the housing market and return it to stability.

Thank you.

MS. BAIR: Well, I would just like to thank the President and Secretary Geithner and Donovan, and Larry Summers in absentia, for the leadership they have shown in putting this package together so early in the new administration. They're committing real resources to this problem. And the FDIC has long felt that the missing link really in all of our strategies so far is we've not tackled the problem at the core, which is at-risk borrowers, millions of unnecessary

foreclosures weighing down home prices and creating a lot of external costs for neighborhoods, communities, and the economy as a whole.

So that missing link is being filled today in a way that I think is effective and responsible. It's a program of shared responsibility, looking to servicers, investors, borrowers, as well as the government, to all work together and make a contribution to get these loans restructured.

It aligns economic incentives in the right way. Because of the securitization features, where a lot of these at-risk mortgages are held, economic incentives have been skewed, so that loan restructurings that make sense, that are more valuable than a foreclosed home, have not been happening. And with this package the economic incentives should be aligned so that those loan restructurings that make economic sense and are viable will occur.

So I would just like to thank again the new administration for their leadership in getting this done, being willing to commit real resources to it. And I'd be happy to answer any questions.

Q We've been hearing $50 billion and now today we're talking $75 [billion]. Why the increase there? And also, if you're doubling the financial guarantees for Freddie and Fannie, does that mean that you have a more dire view of their books and the state they're in?

SECRETARY GEITHNER: The $75 billion because we think that's necessary to make a program like this work. We wanted to make sure we were putting enough resources into this that we were going to achieve as much as possible.

On the Fannie and Freddie front, again, you should view this as underscoring our commitment to stand behind these institutions so that they can play this critical role going forward. This is not a judgment about the expected losses ahead; it's just a way to make sure people understand that they will be able to play this role going forward. It underscores a commitment to make sure they can do that. And that is very important to try to help keep mortgage rates low.

Q The President talked in his speech about the inter-relatedness of the mortgage crisis, the banking crisis and the economy. So I want to ask you, do you think there will be fewer bank failures as a result of this specific housing plan? And then also I have a technical question: Are there any income limits on the incentives for borrowers, or is anybody eligible for them if they're underwater?

SECRETARY GEITHNER: Okay, let me start with the first. All these things are closely related. The recovery act, which is a very powerful set of investments and -- is not going to be as forceful if we have a financial system that's not providing credit to businesses and consumers. So those two things work together.

If those things are effective that will help make sure that people can -- because they're not losing their jobs -- more likely to stay in their home. They'll also help support the housing crisis as a whole.

But we think that alongside those things you need to get directly to the housing thing, too. As Sheila Bair said, I think, the cost of inaction on this front has been very severe. So you're absolutely right -- you need to think about these things together. Each will be more effective if you're moving with as much creativity and careful design force as we can, each will be more effective moving together.

Now on the --

Q -- overall banking plan more effective.

SECRETARY GEITHNER: More people will stay in their homes if fewer people lose their jobs. Banks will be stronger if fewer people lose their jobs. House prices will fall less than they otherwise would if you have a stronger economy and a financial system that's working better to support recovery.

Now, on the issue about qualification. These programs are targeted to people that, again, were relatively responsible. It's not going to be directed at helping those who borrowed just huge amounts of money, well beyond their capacity to repay, and it's not going to go -- it's not going to be targeted at those people who really don't need the assistance, have very substantial amounts of equity in their home and, therefore, are able to refinance, take advantage of lower interest rates.

So it's targeted to those people really in the middle and to make sure, again, they can refinance to take advantage of lower interest rates and they can take advantage of lower mortgage payments and, therefore, are more likely to be able to stay in their home, afford their home.

Q Can I ask about income -- just to follow up -- there are people who are struggling in San Francisco with million-dollar mortgages, even though they have two incomes and things like that. Would they be -- would any of those people be eligible?

SECRETARY DONOVAN: The program does have a limit on mortgages that are below what we call the conforming loan limits, which were -- just in the recovery bill signed yesterday, were maintained at a higher level than they have typically been. The highest -- they vary around the country, depending on home prices -- up to just over $700,000.

So just to be clear, only about 2 percent of mortgages around the country are above that, but we want to try and make sure that this assistance is not targeted at millionaire homes, homes where we, frankly, don't think that assistance is needed, that it's targeted to people who really do need the assistance.

Let me just mention one other thing on your question about the help to the banking system. Obviously Secretary Geithner is focused on the entire banking system. But within the homeownership market you hear about these toxic assets -- well, these toxic assets are really toxic mortgages in housing. And there are two fundamental problems. One is it's been hard to value these mortgages. This plan helps because it establishes a standardized net present value test, which will be released on March 4th when we release the broader guidance that we're going to put in place as part of this plan. That will help to create a more standardized system to value these mortgages across the country and take some of the uncertainty away.

The other thing, frankly, is the reason they've been toxic is because families haven't been able to pay. And so this will take millions of mortgages that currently aren't affordable to families and make them affordable. That will also help to stabilize the balance sheets of these banks, as well. So those are two key points.

Q   It's kind of a technical one -- the $10 billion -- is that part of the $75 billion, or is it an additional dollar amount?

SECRETARY GEITHNER: It's part of the $75 billion total cost.

Q   And is the $10 billion coming from TARP?

SECRETARY GEITHNER: Yes.

Q   Are you able to enact this just by executive order, or do you have to go through a legislative process? And then I have a follow-up.

SECRETARY GEITHNER: We're using authority that already exists for the bulk of these initiatives, although an important part is some changes to the

HOPE for Homeowners program. And there is legislation now pending before Congress that would help strengthen that program, make it more effective.

There are other pieces of the program, too, that require legislation, like the bankruptcy reform provisions. But the core parts of this program -- to improve affordability, to help people refinance -- are using authority Congress has already provided.

Q And then, I know you're trying to realign the incentives. But how do you respond to critics who say that when it comes to especially the pay for success program, that you're providing rewards for things that lenders and borrowers -- I'm sorry -- lenders and lendees already should be doing because of the extraordinary measure the government is taking?

SECRETARY GEITHNER: You've seen a lot of experience over the last year or so -- people try other approaches to help fix this problem, and they are not working. So what we try to do is put together a more powerful package of incentives and other inducements, I'll call them, to try to make sure you get a level of participation and a level of relief in mortgage payments that has not been achieved. We haven't even begun yet.

So this represents our best judgment of that. And you have to look at those costs against the very substantial benefits this will bring to homeowners across America and to the overall economy as a whole.

Q Are there any aspects of the plan that could work right away? There was an official who said March 4th as a possible guideline.

SECRETARY GEITHNER: We're going to put out the detailed guidelines on March 4th. We expect people to go ahead and continue modifying today. And although it will take a little longer for the entire operation or architecture of this thing to be in place, modifications done as of March 4th will benefit from these financial incentives.

So this is going to work, our judgment is, really quite quickly. You'll start to see the effects quite quickly, really a extraordinarily rapid pace for a program -- for an administration this early in office.

Q A senior administration official says 23 percent of the nation's mortgages are underwater right now. Does that mean that most people who bought homes in the past couple of years are now underwater?

SECRETARY GEITHNER: It is true that a substantial number of families -- you can see in our program, there's 4 to 5 million Americans who have had the value of their homes decline and therefore cannot refinance, take advantage of lower interest rates. And this program will help those. And there was no program on the table in prospect before this program to be directly affected those families -- at those families. And that's very important.

Now, there are other families who have much, much higher levels of mortgages outstanding relative to the value of their home, that this program should not reach, really cannot reach. So it won't reach all homeowners. It won't prevent all foreclosures. And it can't really help a range of people who were -- got themselves in the position where they had just borrowed way, way beyond their means.

Shaun, do you want to add to this?

Q Excuse me, if 23 percent of the nation's homes are underwater, and you hope to help 9 million -- 7 to 9 million -- how many people won't this reach? What percentage of 23 percent of the nation's homes is 7 to 9 million?

SECRETARY DONOVAN: A couple things I would say on that. One of the problems is there is no good accurate information about exactly the value of these homes. So there are estimates like the 23 percent that you mentioned. One of the features of this plan is to try and create through standardized guidance that will be issued by Treasury that will apply not just to Fannie and Freddie, not just to FHA, but across the mortgage market in general, to try to get a more standardized process for valuing these mortgages. So that's a critical piece of it.

What we are all -- there are a couple different groups of homeowners within those who are underwater. So it's not just the 4 to 5 million that Secretary Geithner talked about that are currently in conforming mortgages that are underwater that will benefit. You also have a group of homeowners who are part of the 3 to 4 million -- that are included in the 3 to 4 million that we will help, as well, who are both underwater and have affordability problems. Those will benefit, as well. So all of the folks who are being helped today through those first two initiatives are part of that group.

And then, finally, recognize that HOPE for Homeowners is a program that, if we can get legislative changes, will help underwater borrowers. And frankly, allowing Fannie Mae and Freddie Mac to continue to be active at lower interest rates, because of the support that we're providing, will help a large share of those homeowners, as well. So I think the scale of the plan that we got through the various components is adequate to get to the scale of folks who are underwater.

We're not going to be able to bring every one of those borrowers to a point where they have equity in their homes. But at least we can make sure they benefit from refinancing, lower their payments, and get to an affordable level in their home.

Q You suggested that there would be help for people with non-conforming loans. I thought that there was not.

SECRETARY DONOVAN: To be clear, the modification program that is being announced today will allow any servicer who -- whether that loan is a conforming loan with the GSEs, or it is held by a private label security -- any type of loan as long as the servicer and the investor are willing to step up, they have some skin in the game, so to speak, they're willing to bring the payments down to 38 percent what we call DTI -- debt to income ratio -- we will provide incentives. We will split 50/50 the reduction of those payments down from 38 percent to 31 percent.

So any loan, whether it's a GSE loan or not, can participate in that program. And those homeowners who are underwater and also can't afford to pay their mortgages can participate.

Q -- respect to the lender?

SECRETARY DONOVAN: Just to be clear, we do have guidance -- as Secretary Geithner said earlier, we have guidance as part of TARP, that anyone receiving TARP funding must participate in this program. And we have a range of incentives that will make sure that servicers who have not been able to participate before can do so.

Let's be clear: One of the problems is these securities that hold many of these loans are so complex -- they've been sliced and diced into so many pieces -- that they are lots of problems for servicers that have a financial incentive to modify, but they haven't been able to do that. So we're going to provide standardized guidance across all the mortgage market that defines what a reasonable modification is. That will provide a lot of comfort to these servicers who have been concerned about lawsuits. That's first of all.

Second of all, we're going to provide the incentives that I talked about before, so there's a financial incentive to participate. And third, a program which really Sheila Bair has been a leader on -- we're going to provide this insurance pool -- the $10 billion insurance pool -- to make sure that future price declines aren't a reason for servicers to not participate. Right now, many are afraid if they modify and home prices fall further, that they're going to lose from that. We're going to help ensure against that so we get greater participation, as well.

We think the combination of the carrots and the sticks will be effective in getting much greater participation.

Sheila, do you want to add on this?

MS. BAIR: Yes, I just need to clarify, there's a difference between a conforming loan and a loan under the conforming limit. So the loans, the modification, "do they have to be below the conforming limit?" That doesn't mean they have to be conforming loans. A lot of them are not. A lot of the high-risk mortgages are in these private label securitizations.

And I guess to go back also to an earlier question about, well, why pay them for doing something that makes economic sense already. And I can assure you, our hands-on experience when we became conservator of IndyMac and we're dealing with the investors to try to get those loans modified in the servicing portfolio of IndyMac, and there were two key problems. One, is that investors have different interests. If you reduce the interest rate on these loans, some investors get hurt by that, some get help. If you foreclose, some get hurt, some get help. So the economic incentives are misaligned. The servicer has no skin in the game at all, right? So there's inertia there to begin with. The investors are pushing different ways, perhaps threatening lawsuits.

So I think what we're trying to do is align economic incentives by saying, if you come this far for us, 38 percent, then we'll help with the interest deduction between 38 and 31. We'll also give you some protection. We know home prices are going down. We know that some of these loans will redefault -- may redefault later and you will have to take a loss because the foreclosure value will be less. So we're going to give you some additional insurance, guarantee against that.

Those are the two huge issues that we've heard from investors over and over again. And we think -- it would be nice if it happened voluntarily. We tried voluntary. It didn't work. And we are woefully behind the curve. So I think this program is necessary. I think it does have the right incentives that should get the job done.

These modifications, though, absolutely make business sense. At IndyMac, we -- even assuming a 40 percent redefault rate, which is very high, higher than we think -- we're still making $50,000 on average for every loan we modify, just because the value of a performing loan is so much higher than that of a foreclosed home.

So this is -- this makes economic sense. It will help the economy. It will help stabilize home prices and prevent us from overshooting, which I think we are in a distinct danger of doing right now.

Q It's my understanding that this only applies to first mortgages, so that if you had a second -- a first mortgage and you're not technically underwater with it, but you are with your first and second combined, you're not eligible for assistance, correct? And why not?

SECRETARY DONOVAN: That's not correct, actually. We do have one element of the program that says if your total debt, including second lien but also credit card and other debt, is more -- your payments on all that debt is more than 55 percent of your income, then we think you're very unlikely to succeed. And therefore, we're going to require those families to go into counseling to try and reduce their other debts, and then they could become eligible for the program.

Q (Inaudible.)

SECRETARY DONOVAN: If they want to benefit from the program, we're going to have to do something to reduce their overall debt. What we don't want is to provide a modification that's set up for failure. We want to make sure that we're setting people up to succeed. So if their overall household debt is too high, that's going to be a requirement to be able to participate in the program, if they want to get the -- but on second liens, you are eligible to participate. And what we have generally seen is that the second liens on modifications are not a problem to participation, because no payments are made to the second liens whatsoever under this program.

We're going to focus on getting affordability. Their payments have to get down to the 31 percent level. And we will not be making payments to those second liens, because, frankly, they're not -- they don't have a value in this case if the homeowner can't even afford to pay the first mortgage. So no payments will be made. We've been in extensive discussions with the servicing community; we don't believe that's going to be an issue for the program and they will be able to participate.

Q How quickly are you going to go push this bankruptcy change in Congress? Is it --

SECRETARY GEITHNER: We're working with the leadership in Congress to find a appropriate way to move that forward, and we're working on it.

Q -- is it weeks, months?

SECRETARY GEITHNER: We're working on it. We're trying to find the best path to early enactment. And we want to have a carefully defined package of reforms.

Q As you said, there are millions of people who ultimately could be eligible for this help, and they're all wondering how do I go about doing this? Can you in a concise way explain who is eligible for this and who absolutely would not be eligible for the various forms of these programs?

SECRETARY DONOVAN: So you are eligible if your debt-to-income ratio -- in other words, the payments that you have to make on your mortgage -- are above 31 percent of your income; if the size of your mortgage -- and Sheila's clarification is important -- the size of your mortgage is below the amount of the conforming loan limits. It doesn't have to be a GSE loan, but it has to be below that limit, which varies across the country depending on home prices. And you have to have a reasonable chance of success as measured by whether your mortgage is underwater. In other words, if you're so far underwater, more than about 150 percent loan-to-value, we think you're very unlikely to succeed -- those will not be eligible, as well.

Q You answered part of my question. So the lower threshold on refinancing is loan-to-value of 150 [percent]?

SECRETARY DONOVAN: In other words, if you're over 150 percent loan-to-value right now you're not eligible for the program.

Just one point, one thing that's not in the list is being delinquent. Programs have typically required 90-day delinquency. We believe that we have to move this modification process earlier to help people be successful. And so we do not have a requirement that you have to be delinquent. In fact, we have incentive payments to try to bring non-delinquent borrowers in, because we think we have a better chance of success.

Q From 38 down to 31 -- does that include principal, as well, or just interest?

SECRETARY DONOVAN: That is up to the servicer. We are willing to match payments for principal reduction or interest reductions or extending out the term. Whatever the combination is that can get payments down to 31 percent, that's critical. We've seen a lot of modifications that have failed because they've actually increased payments rather than reduced payments. So getting payments to 31 percent debt-to-income ratio is critical.

Q I did hear you say that you're eligible -- not eligible if the size of your mortgage is below the amount -- or has to be below the amount of the conforming limits. I thought you just said in an earlier answer that the non-conforming mortgages were eligible.

SECRETARY DONOVAN: Yes. So just to be clear, two different things. A conforming mortgage is a Fannie Mae or a Freddie Mac mortgage. Conforming loan limit is a dollar figure, okay? So what we're saying is, very large mortgages aren't eligible. Smaller mortgages are eligible whether they are Fannie Mae or Freddie Mac mortgages or other kinds of mortgages. Sorry about that.

Q What's the definition of that? Because in New York or San Francisco, very large is very large -- but, I mean, there's different levels --

SECRETARY DONOVAN: And we'd be happy to provide more detail to you. It varies across the country, depending on what home prices -- the maximum is about $730,000 in the highest-priced areas. There's a relatively complex formula I don't want to bore you with, but we'd be happy to get you what those numbers are across the country.

Q So there's a regional --

SECRETARY DONOVAN: Yes, there's a regional variation, depending on home price, exactly.

Q Three very factual questions. First, does the $75 billion come from the TARP money, the second tranche of the $350 billion of TARP money?

SECRETARY DONOVAN: Most of it but not all of it is from the TARP.

Q Where is the rest from?

SECRETARY DONOVAN: Part of the way that we're going to implement this program, Fannie Mae and Freddie Mac will do modifications of their own loans that qualify in this program. And we are not providing TARP funds to Fannie Mae and Freddie Mac for modifying their mortgages. But obviously that has a cost to them to modify them, and we are including that in the $75 billion that will be dedicated to doing that.

Q And secondly, you said you would expect about 6,000 foreclosures in the coming years. Can you be specific about the coming -- what do you mean by "the coming years"? And also, again, can you give us your best estimate of how many people will still go into foreclosure despite this effort?

SECRETARY DONOVAN: So, two things. Roughly 6 million foreclosures is expected over the next three years. Those estimates vary, depending on -- but that's, we think, a good estimate at this point, without implementing this program.

We believe we can help a very large share of these. It's going to depend on participation in the program. As I said earlier, between 7 and 9 million homeowners, families can benefit from the modification and the refinancing program. So it's a substantial scale. What's impossible to predict is exactly how many of those 7 to 9 million families would go into foreclosure. But we think we can get to a majority of the foreclosures.

Let me also be clear: There are speculators who are not owner occupants who will continue into foreclosure because this program is not targeted for them. There are families, frankly, whose debt is so high that even with this modification we're not going to be able to help them. One of the things that we do with our plan is to provide incentives for those families to be able to transition out of homeownership in a way that doesn't hurt them and doesn't hurt the communities around them.

What do I mean by that? Right now a foreclosure hurts their credit rating, makes it very hard for them to ever buy a home again, and also hurts surrounding communities because those homes tend to sit for months vacant, lowering prices of surrounding homes. So we've provided incentives for transitions short of foreclosure, like deed in lieu, or short sales, through this plan as well. So we believe even for those who are headed towards foreclosure, we've provided tools that will limit the impacts on families and on communities, and help to limit the decline in housing prices in surrounding communities.

SECRETARY GEITHNER: Can I just add one thing on this? It's just important to recognize that one of the biggest factors that effects the level of foreclosures is what happens to the economy as a whole and what happens to the path of unemployment. So these programs will address part of that risk. But overall path of foreclosures is hugely dependent on how quickly we get growth back, how quickly we get job creation back on track.

Q Two questions. One, does having Fannie and Freddie endorse these loans or continue to be involved in loans where people are below 20 percent increase their exposure in the long term? Have you tried to do any estimate of that? Is it going to be good for them in the long term in your estimate?

And the other question is on the investors and speculators. How are you sure that these aren't investors and speculators, and could there be second homes that are eligible for this program?

SECRETARY GEITHNER: On the first, Fannie and Freddie believe that the program we announced, this refinancing program is economically sensible for them and will leave them overall in a better position going forward.

As Shaun said, I think Sheila said, too, to be eligible this has to -- you have to be in an owner-occupied home. And that simple test will reduce the risk that any investors or second homes would benefit from the program.

SECRETARY DONOVAN: Second homes are not eligible.

Q How is that verified?

SECRETARY GEITHNER: It will be verified. It's easily verifiable.

Q I have two questions. The first is on the second part of the program, will people apply for the help, or will the servicers suggest the help to their debtors? And is the interest rate
-- by changing interest rates alone, will that be enough to get all these people to 31 percent of their income?

SECRETARY GEITHNER: On the first -- Shaun or Sheila may approve this, but you want -- for this to work, borrowers are going to have to take the initiative to approach their lenders to try to take advantage of the program. And you want servicers to take a more proactive approach to contact borrowers who are at risk and where it may make economic sense for everyone for them to be in. So you need to have both those two things happen. And this program creates pretty powerful incentives for initiative by the servicers to move.

On your second point --

Q (Inaudible.)

SECRETARY GEITHNER: Absolutely. Absolutely. You can come and initiate that process. And there's a variety of -- to make that easier, easier to happen more quickly.

On your second part of your question, as Shaun said, you can bring those mortgage payments to 31 percent through a mix of interest rate reductions,

principal reductions, or extensions of the loan. And we're trying to incent and help that actually happen. And whatever mix works is okay.

Q -- the principal, as well?

SECRETARY GEITHNER: That's right.

Q And also, just one more thing. Do you think that Fannie and Freddie can sort of -- are they strong enough to absorb this much new responsibility? Are you at all concerned about their ability to handle --

SECRETARY GEITHNER: They are confident they can handle this. And they have a substantial economic incentive in doing so.

Q (Inaudible) -- foreclosures are skyrocketing. And the number one thing we hear from homebuyers, homeowners struggling: lenders won't play ball. So I hear the incentive, and then I hear TARP involvement. Are there penalties for lenders if they don't participate?

SECRETARY GEITHNER: Well, as Shaun said, you're seeing there's a, I think, pretty powerful set of incentives, positive inducements and conditions, other types of incentives. And we think it will change behavior on a significant scale.

Q Thank you.

END 9:40 A.M. MST