AARP SOLUTIONS FORUM

The Foreclosure Crisis: Ending the Nightmare for Older Americans

Monday, July 23, 2012
Columbus Club, Union Station,
Washington, D.C.

Welcome:
Susan Reinhard
Senior Vice President,
AARP Public Policy Institute

Speakers:

Lori Trawinski
Senior Strategic Policy Adviser,
AARP Public Policy Institute

Janis Bowdler
Director of Wealth-Building Project,
National Council of La Raza

James Carr
Chief Business Officer,
National Community Reinvestment Coalition

Deborah Leff
Deputy Counselor for Access to Justice,
U.S. Department of Justice

David John
Senior Research Fellow,
The Heritage Foundation;

Paul Willen
Senior Economist and Policy Adviser,
Federal Reserve Bank of Boston

Moderator:
Jane Bryant Quinn, Financial Journalist

LORI TRAWINSKI: Good morning.

AUDIENCE MEMBERS: Good morning.

MS. TRAWINSKI: I'm Lori Trawinski, senior strategic policy adviser on the consumer and state affairs team of the Public Policy Institute. I will be your temporary emcee for this morning.

We have a couple of quick announcements. First of all, today's event will likely end between 11:30 and noon. There's been some discrepancy about when it will end. If we solve the foreclosure crisis prior to 11:30—(laughter) —the event will promptly end, but otherwise, we'll probably finish up between 11:30 and noon.

And finally, if anyone here plans to post to Twitter during today's forum, please use #mortgage50, as displayed on the screen.

I have the distinct honor this morning of introducing Dr. Susan Reinhard, senior vice president and director of the Public Policy Institute and the chief strategist of the Center to Champion Nursing in America. Dr. Reinhard is a nationally recognized expert in health and long-term care policy. She has led the Public Policy Institute for the past five years, and under Dr. Reinhard's direction, PPI has increased its research capabilities and visibility through the hosting of events designed to bring thought leaders and policymakers together. Today's solutions forum is one such event.

Dr. Reinhard's vision and dedication continue to drive the success of the Public Policy Institute as it remains at the forefront of policy research developments affecting older Americans. Please welcome Dr. Susan Reinhard. (Applause.)

SUSAN REINHARD: We're laughing because I'm going to introduce her, but she said she should introduce me, and what a lovely introduction. Thank you, Lori.

So good morning and welcome to the AARP Public Policy Institute's Solutions Forum, "The Foreclosure Crisis: Ending the Nightmare for Older Americans." First I want to thank you for being here, for participating in this important discussion. And whether you came across town on kind of this dreary day, but to this beautiful room—whether you did that or you're tuning in from around the country, your interest in this topic is very important. And I just want to pause to say that this event is live streaming right now. Nice to see a lot of people I know in the audience, thank you. But it will also be archived and you can find it by tomorrow at www.aarp/ppi. It'll be up there for a number of months, so we encourage you to share it with those that might be interested.

And I also want to thank those who are most responsible for today's forum. You've already met Dr. Lori Trawinski, who is truly the whole background of this entire event, you'll see, both the substance of this and the convening of getting the right people to the stage to talk to you today, but also to Elizabeth Costle, who is the director of the consumer team, wherever she is—she's right there in the audience—and to Rick Deutsch, who is in the back and has been doing all of the coordinating with communications that he always does so well and really was one of the driving forces in creating the idea of solutions forums about five years ago when we first came. So thank you, Rick.

Well, I'm sure—I'm sure you are familiar with the work of AARP in many areas, and I see many people in the room who have been involved with AARP and with former solutions forums, even some former members of the AARP Public Policy Institute, and certainly in the areas of Social Security and Medicare. You may not be aware of the wide range of issues that the Public Policy Institute produces, so I just want to say a word about who we are. PPI, as we're known, was founded more than 25 years ago to serve as the focal point for public policy research, analysis, and development at AARP, and we're fondly known as the think tank of AARP. The institute's staff of policy experts provides policies designed to improve economic security, health, and quality of life as we age. We conduct research, but perhaps more important, we look for creative solutions. And we look to uncover those solutions, in part through our research, but also by convening experts. And our goal is to have a place where we can have an open discussion, open in front of the press, very transparent kind of discussion. We have other things that are off the record; this is very much on the record. And we're looking for those experts to come from various perspectives and to share those perspectives, those ideas and to highlight issues, evidence as well as those ideas.

The Public Policy Institute does cover a wide range of issues, but in particular, the mortgage finance and foreclosures have been a major area of focus for many years. George Gaberlavage, who was formerly with the Public Policy Institute, is now with our Office of Policy Integration, really kicked off this about 10 years ago, so I just want to recognize George.

So just a brief look back: 10 years ago the Public Policy Institute examined subprime—(clears throat)—excuse me—subprime lending and older borrowers in a series of research briefs. And in 2008 this was the first time the Public Policy Institute published a seminal study that looked at the early stages of foreclosure crisis and its impact on older Americans. This was the first foreclosure study to present data by age. It was rather stunning that before that there were no data that you could look at by age, so that's why it was a particularly groundbreaking look. And it—the findings really surprised all of us how deeply problematic this was for older people, because so many of us thought that people were housing-secured at an older age, and that was not the truth for many people. That study uncovered data for the last six months of 2007, when there of course were signs in the mortgage market that was becoming evident, and in 2008 that was the first time we had a solutions forum, similar to this, to discuss the problem.

But you all know that unfortunately, the problems didn't stop in 2007, and in fact they were minimal compared to where we are today. So this report, "Nightmare on Main Street: Older Americans and the Mortgage Crisis," picks up where we left off in 2007, but goes a lot further. It presents detailed analysis and measurement of the progression of the mortgage crisis over the past five years. For the first time—very first time we have more data than we had in 2008. We have data on the number of underwater loans by age group, foreclosures by income bracket, and loan performance data by age and loan type. This is the culmination of a massive, or at least very challenging, project that took over a year to complete. It contains detailed research and analysis and is the only report with age breakdowns and loan performance in the foreclosure research space.

"Nightmare on Main Street" conveys the difficult reality that is facing millions of homeowners. More older Americans are carrying mortgage debt than in the past, and the amount of that debt is increasing. The Great Recession has been brutal for older Americans, especially those faced with mortgage costs and property taxes and those hit with job loss, not to mention health care costs. The study shows that homeownership does not guarantee financial security later in life. This is a long-held belief that owning a home was a way to save and build wealth, and that belief may have to be revisited, at least for the foreseeable future. The ability to tap home equity in retirement, as so many older people have done in the past, is no longer an option for millions of Americans.

As we discuss the results from the past five years it's helpful to look at the state of the market today. And I know there are many people in this room that are experts in this area, but just to set the context, let me just offer a few observations. We continue to see a housing market in turmoil. Who knew in 2007 that this would be the case in 2012? Although housing prices have stabilized in many areas, they have yet to recover.

Second, foreclosure inventory remains very high by historical standards, and the 90-day-plus delinquency rates also remain elevated. Sales of foreclosed homes bring down property values in surrounding neighborhoods, which is very problematic for those people living in the neighborhoods since homes are selling below market prices. And we expect this to continue, unfortunately, for some time.

Also troubling, and is shown by today's study, is the high percentage of underwater loans. You all know what that means. It's where the amount you owe on the house is more than the whole value of the property. Nearly 24 percent—that's one in four—24 percent of all loans were underwater as of the first quarter of 2012. I think that is a stunning, remarkable statistic and very, very troubling. Underwater homeowners face difficulty refinancing, and many just simply cannot sell their homes.

Mortgage underwriting standards are extremely tight, so only those with the most excellent credit have access to mortgage financing. And add to this the uncertainty regarding the housing finance system and what role Fannie Mae and Freddie Mac will play going forward.

Meanwhile, as we all know, the U.S. economy is growing slowly and unemployment remains high. So this is a pretty dreary forecast as a context for a very important background. The slow housing economy is a problem because in the past homes were used, as I said earlier, for equity by many as their primary savings for retirement. With the decline in prices or the loss of the home, these resources are no longer there when retirees need them. It also means that people who need to move, who need to sell their homes, for example to move into assisted living or to downsize, to be closer to their family members as they get older—they simply can't sell their homes. So it has remarkable consequence for older adults and their families.

"Nightmare on Main Street" shows that millions of older Americans have been affected by the mortgage crisis and that many are currently facing foreclosure. Still more will face foreclosure in the future, and this crisis is far from over.

We have a very impressive group of experts that we have assembled—they're sitting in the front, and they'll be coming up very soon—from all across the country to discuss the current state of foreclosures. And together we will discuss the most promising solutions. This is indeed called a solutions forum for that reason. So I gave you the problems. Hopefully we'll be talking more about the solutions. We'll be looking at how we can assist older homeowners. And, as Lori would say, who knows? Maybe we can develop an innovative solution right here on this stage by 11:30, maybe noon if you want to hang around. (Laughter.) We can hang—there's more coffee and what have you if you want to stick around. (Laughter.) And at minimum, we will have highlighted a very important problem facing many, many older Americans. We want to call upon policymakers to continue working on foreclosure assistance and to especially look at policy solutions that address these unique needs of older Americans.

So I look forward to a very lively discussion. I know that we will. I've met our panelists, and I certainly know Lori, so I expect lots of very lively discussion. But before we discuss the policy solutions, we're going to have a first look at the findings of this report and answer your questions about the study.

So that's when we're going to introduce Dr. Lori Trawinski, who introduced me. So—(laughter) —Dr. Trawinski is the author of "Nightmare on Main Street." She is the senior strategic policy adviser on the Public Policy's consumer and state affairs team. She joined us really just about two years ago and half of that time has been working on this study, as well as other things that she's been working on, and she is responsible for policy and research on mortgage lending, housing finance reform, reverse mortgages, consumer debt, and banking. She has been tireless in her quest to bring the most comprehensive data and analysis to this critical issue. She is also a comedian. I just have to say that to embarrass her. She's a stand-up comedian as well and we have her all the time at our parties; she's fantastic. So please join me in welcoming Dr. Trawinski. (Applause.)

MS. TRAWINSKI: Thank you very much, Susan. I'm not going to open with a joke. (Laughter.)

I just want to thank everybody for being here today, because as we've said, you know, I've spent the last year of my life really focused on this issue. And from my perspective, these results are really stunning. We've discovered that from 2007 to 2011 1.5 million homes have been lost. And so the number of people who lost their home would be higher than that 1.5 million if there were more than two people living in the home, or more than one person.

The other issue is as of December 2011, we have 600,000 loans that are currently in the foreclosure process and another 625,000 that are 90 or more days delinquent. Add to this the fact that the percentage of older Americans who are carrying mortgage debt has increased substantially in the last 20 years and, in addition, the amount of the debt they're carrying has also increased, and that's after adjusting for inflation. So it's not surprising that we would see an increase in foreclosures in this group.

I want to take a moment to talk a little bit about the data used in this study, because that is really the most unique thing about it. We contacted CoreLogic, which is a leading provider of property mortgage loan origination and performance data. And we looked at only first lien forward loans for owner-occupied homes. So we're not looking at investment properties, and we're not looking at second homes and vacation homes. We're looking solely at homes people reside in as their primary residence.

We also had the ability to look at low-level data, and it's also prime loans and subprime loans. So we can examine the performance of those two types of loans separately. And we have a unique set of demographic data that we were able to match to this, and that would include age, race and ethnicity, and income bracket.

And at this point I just want to thank the dedicated staff at CoreLogic. This project turned out to be much more complex than originally thought, and they were excellent in working with me to go over issues we discovered over the course of the data work. And the end result is one of the most unique data sets out there. And so I must thank them for that.

A little—just a little quick background on how we were able to do this. CoreLogic went to their aggregate property ownership database and said—you know, they took a slice and said, let me see all the loans that are out there. So basically we started with their mega-database. They cover 99 percent of the market. We then took that data and matched it to—with demographic data from a demographic data provider. So they used a complex algorithm to look at property address, name of borrower one, name of borrower two. At the end of that they came back with a set of data that had age associated with it. The third step in the process was to take the aged data and match it with the loan performance data. So here in loan performance, what you have are mortgage servicers who collect your payments on a monthly basis, so if you are late or in foreclosure or, you know, whatever the status is of your loan payment, that data was then pulled in and matched. So the end result was a data set that had 18.1 million loans with age data. And of that we had 8.3 million loans belonging to people age 50-plus. So it's quite a large number of loans and samples.

The other thing that we did is we used the definition of mortgage delinquency that's used by the Mortgage Bankers Association. This enables us to be consistent with the terminology that is usually used. And so 90-plus delinquency plus loans and foreclosures is what we call seriously delinquent. And we also defined foreclosure as loans that are in the preforeclosure stage and loans that are in the auction stage. So if a home has been lost, it is no longer in foreclosure. If a loan is delinquent but a filing has not been made to institute foreclosure, it is not in foreclosure. So I just wanted to make that distinction so that we would understand exactly what we're discussing here.

So what I've got here now is the—a graph of foreclosure rates by ages. The very top line shows us the under-50 category. So in all cases people under 50 have a higher foreclosure rate than people over 50, and that's not really unexpected. Younger people have—typically have less equity.

If you look at the next line, though, that is for the people 75-plus. And that is the line that we believe is most troubling because although the number of loans in that age group is smaller, because as people age, fewer people have mortgage loans, on a percentage basis they have the highest foreclosure rate. And that's a serious problem.

So for the 75-plus in 2011 the foreclosure rate was 3.2 percent. It was only 3 percent for the 50-to-64s and 2.6 percent for the 65-to-74s. So we think that's one of the main findings, and I think you probably have already heard a lot about that in the press.

The next thing I wanted to talk about is when you look at loan performance—and that prior graph included all loans, so it was the total of prime and subprime loans. So here I just wanted to show you the difference between the under-50 and over-50 performance for prime loans. And these are loans that typically go to borrowers who have good credit. And the terms of the loans are pretty standard in that there's nothing in the design of a prime loan that is—you know, you pay down the loan every month, you always make a payment, you pay off some principal each time, and you don't have a term, typically, longer than 30 years.

So if you look at this—these—this bar chart, you'll see that the foreclosure rates were pretty low in 2007, and you'll see the extreme amount of growth that has occurred through 2011. You'll see the under-50s are higher than the over-50s. And the blue is the foreclosure rate, and the red is the serious—90-plus delinquency. So those are loans that are pretty likely to end up in foreclosure. So the blue is, like, we're already in trouble, and the red is we're going to soon be in trouble. So that's a way to think about it. And one thing I also want you to note as you look at this graph, this scale stops at 7 percent. So now let's take a look at the subprime.

Our scale changes to 35 percent. And for the 50-plus, we've got a 12.9 percent rate in—that's a foreclosure rate in 2011. We've got a 12 percent serious 90-plus delinquency rate. So the serious delinquency rate is 25 percent on subprime loans, and that's a pretty high number. And it's more than five times higher than what we saw in the prime.

Now, over time, the number of subprime loans outstanding has been decreasing. People have either refinanced out of these loans or potentially lost their homes, but you know, in '07 there were more subprime loans in my study than there were by the time 2011 came around. So the good news is, slowly these loans are going away.

So now I just wanted to show a couple of slides that look at the foreclosure rates by race and ethnicity. So going again back to prime loans and noting that we have a 6 percent scale here, it may be difficult to read, but the green—the green bar is Hispanic bar, whereas the red bar is African-American bar, whereas the blue is white, and the sort of purple are Asian borrowers. And so what you'll see is, you know, a massive increase in this—and this is strictly foreclosure rates we're looking at here, but you'll see a very sharp increase there in those rates, and you'll see that minority communities are suffering more than non(minorities). So the foreclosure rate was 3.9 percent for Hispanics in 2011 and 3.5 percent for African-Americans, and whites were 1.9 percent, and Asians were 1.8 (percent). So remember, this is the 6 percent scale.

Let’s take a look now at the subprime, and we’re up to 20 percent. And what you see here is, there’s much less variation across the race and ethnicity levels of the subprime loans. The translation for me is, everybody’s hurting who has a subprime loan, and so, you know, there’s no good news for anybody. And I think it really speaks to the fact that these loans had toxic features and were unsustainable in the long run for anyone.

So the serious delinquency rate, which is, you know, the foreclosure rate and the 90-plus delinquency, is 25 percent in 2011 across all races and ethnicities. So again, it’s a serious problem, and you know, even though these—the number of these loans around is decreasing over time, we still have far too many of these outstanding.

So the data gave us the opportunity also to look at some of the information by income bracket. So here we have a look at the serious delinquency rates looking at African-American, Hispanic, and white people, and the income increases as you go to the right. And so for prime loans, what we observe is that as your income goes up, the foreclosure rate and delinquency rate would go down. And we would have an expectation that this would be. It makes sense. And you’ll see, you know, the—much lower rates for white people than for African-American, and the Hispanic people have the highest rates here.

I’ll also note that the study found that the majority of loans in foreclosure were for people who had incomes between 50,000 (dollars) and $125,000. And so in our study, that is essentially the middle-income group. So they have borne the brunt of the foreclosure crisis with 53 percent of loans in foreclosure.

So now let’s look at the—and note again the scale here—and this is 15 percent is the top. So if we look at the subprime by income and race, ethnicity, this is a much different picture. And so what we see here is there’s less variation by income. And in fact, some of the higher-income people have had more foreclosures and experienced more delinquencies than the lower-income people. But what we also see is there’s a lot less variation, you know, by income and race. And we also have a scale that is double the size of what we had seen in the prime loan market. So this is—you know, again, I believe, more evidence that the subprime loans are just unsustainable in the long run.

And so I just—you know, I just put these two graphs together so you can see how we don’t have any—you know, much less discrepancy across race and income levels here. So I thought that was an important—an important finding here.

So as we go forward, we plan to do more research in this area, and so we intend to update this study as of December 2012 and second quarter of 2013. We also later this year expect to be able to provide data by state, because we’ve been asked—you know, obviously, you know, real estate markets are local and so there may be markedly different stories across individual states. But we also felt it was extremely important to present the nationwide picture first.

And then other research going forward could also look at more detailed borrower and loan characteristics of those folks who are in foreclosure and those who are 90 or more days delinquent. So we do have a much larger data set available, and that’s sitting back at the office waiting for me. So I will be quite busy going forward.

And finally, I just wanted to talk—the paper—in the paper we also talked a little bit about some of the policy solutions, and we'll be discussing some of those when we turn to the panel in a few minutes. But I just wanted to highlight a few. One of the things we believe strongly is that there should be an increase in the use of principal reduction loan modifications. And we think especially for the underwater borrowers—and there are a lot of those concentrated in places like Florida and Nevada, places that have a very high concentrated population of older people. And so we think it's highly important to focus on that and try to—try to get that solution out there a little bit more.

We believe also that mediation programs can help. It's not about delaying foreclosure. It's about getting the people together in the room with the same set of facts and figures and trying to work out the best solution possible for everyone. We also think that more access to housing counseling and legal assistance should be available. Older people sometimes have unique needs, and we think there's really not enough focus on that.

We think prevention of foreclosure scams should also be stepped up, and we also have a strong belief that a short-term financial assistance program should be developed that would enable people to obtain bridge financing so that if they're trying to sell their home and they can't but they need to move to assisted living, there would be a mechanism that would enable them to do that.

And finally, we also look forward to working with the CFPB and commenting on their issues related to mortgage servicing and mortgage disclosures. This is an area where had there been more regulation, I think we would have seen fewer problems here. So we want to see mortgage servicing standards that will help smooth the process and help people be able to contact a mortgage servicer and get a straight answer and be able to talk to the same person if they should have to call back at a later time. So in summary, more needs to be done, and that's why we're here.

So if anyone has any questions in the paper, I would be happy to take a couple. Please use the microphone down here and please—please state your name and affiliation.

Q: (Name inaudible) —George Washington University. First of all, it was a terrific report. Thanks for doing it.

Now I was just wondering if you know anything—with the data that you have at your disposal, can you tell anything about what happened to these households, what type of refinancing or equity extraction you might have done prior to the time of a—prior to the data that you have—to see if you can tell to what extent that might have put them in jeopardy of foreclosure.

MS. TRAWINSKI: We will have access to that data point in the future research, so yes. It was not something we were able to look at at this aggregated level, but it is on the to-do list. And—because I think also people forget that, you know, say you retire at the age of 65 and decide to sell and move, and if that occurred—if that move occurred for you in 2005 or 2006, you're most likely under water. So you know, people—sometimes people say, well, it's, you know, all this equity extraction or crazy refinancing or use of the home as an ATM. But I think when we dig deeper we'll have more insight into that, but I think there are an awful lot of people that just caught up—got caught up in buying their home at the wrong time.

Q: Good morning. My name is Rick Rybeck. I'm with Just Economics. And I was interested in the last chart that you had up, and particularly the high rate of foreclosures—(inaudible) —among affluent whites, which was the same as or greater than African-Americans and Hispanics—in subprime mortgage, that is. And I'm wondering, is this a result of real estate speculation activity or have you tried to get your head around what's going on—(inaudible)?

MS. TRAWINSKI: Well, since we're looking at primary homes, I would be less likely to think it's speculation, although I guess, you know, some people could speculate on their primary residence. But I think that's not going to be the norm, and so I think that's one of the benefits of focusing only on the owner-occupied loan.

Any further questions? The report was so comprehensive—(laughter)—no one has any questions? Wow, OK. Well, thank you very much. (Applause.)

So now I would like to introduce the moderator for our panel. Jane Bryant Quinn is a leading commentator on personal finance, with books and columns read and trusted by millions of people, myself included. Her career includes long-running columns in *Newsweek* magazine, the *Washington Post* newspaper syndicate, *Women's Day*, and *Good Housekeeping*. She also contributes regularly to the AARP Bulletin. You may have also seen Jane on the CBS morning and evening news programs. Author of the bestselling personal finance book *Making the Most of your Money Now*, please welcome award-winning author and journalist Jane Bryant Quinn.

Would the panelists please come up?

JANE BRYANT QUINN: Good morning, everybody. I'm very happy to be here with you. And I have to say that in my reporting, one of my favorite sources when I come to talk about reverse mortgages or what's happening in the mortgage market anywhere is of course Lori Trawinski, who I call—who I met by phone looking for a source. And she has been absolutely marvelous for me.

And one thing I would just follow up with and just very briefly to Lori's fabulous study is that, as you see, you saw here especially the 75-pluses, how they're these very, very high rates of foreclosure. And one of you basically sort of asked what position were they in and what's happening to them. Well, I can tell you what's happening, is that we are seeing very rapid rates of increase in older people moving in with their children, not because they're frail or elderly or for the usual reasons that parents move in with their children, but because they're broke. They lost their job, maybe 55 or 60 they ran through their retirement savings. Maybe they got a reverse mortgage, but eventually they couldn't pay the taxes. They were under water. It's a whole variety of things that happened, and they're broke at 75. Bankruptcy rates are going up rapidly there. Where do they turn? They turn to their kids. And they—Census Department just started in 1978 keeping numbers on the number of parents moving in with children at later ages, and it's up 8 percent in the past three years. And we're going to see—(coughs) —sorry, I'm going to get my water. We're going to see this climbing a lot more rapidly. So that fits in exactly with the kind of data that Lori is showing here, increased foreclosures. Where do you go? You go to your kids' basement, if you've got kids, and they'll take you in.

So we have a wonderful panel to talk about mortgage foreclosures here today. I'm very honored to be here. Our plan is that they will each speak for five minutes. And then I have some questions, and then we will turn the questioning over to you. You have their biographies in your materials, so I'm not going to do anything at great length about their biography, so I'll just give you a couple of sentences about each one before they speak. And we're going to start with, on my left, Jim Carr. Jim is the chief business officer for the National Community Reinvestment Coalition. He has done great work in attracting investments to financially underserved communities and working on reducing foreclosures there. Jim gets very dark under the eyes when someone tells him that the foreclosure crisis is almost over. (Chuckles.) So I am passing it over to Jim.

JIM CARR: All right. Thank you, Jane. On behalf of the National Community Reinvestment Coalition, I'm honored to be here today to speak with you about this important issue. And before I start, I should give a qualifier. Anything that I say that sounds brilliant, insightful, really provocative, and you can relate to it, those are the views of the National Community Reinvestment Coalition. (Laughter.) Anything that I say that—(inaudible) — obviously not. (Laughter.)

So I'm going to make five points, and I'm going to try my best to make each one—(inaudible). This is impossible, but I'm going to try. So first of all, the foreclosure crisis, in my view, is not yet over. We're six years into the crisis, and although we saw foreclosures falling last year and into this year, the reality of it is, what was mostly driving that was not borrowers' ability to repay their loans improving, but rather the (moratoria?) that had resulted for a whole host of legal challenges against servicers, challenging their ability to foreclose. The largest legal suit was a 49-state attorneys general suit, which has now been settled, and we can expect foreclosures to rise again. In fact, we're already beginning to see that in the market.

We are three years into the largest federal program, the HAMP program, and it still continues to struggle. I believe it still hasn't processed more than 1 million permanent loan modifications. Mortgage originations are at 15-year low and continue to struggle, as Lori pointed out in her presentation. House prices appear to have stabilized. In part, they've stabilized because the foreclosures were limited. There were fewer houses on the market. So I think that helped out a bit.

But the real driver of the foreclosure crisis for at least the last three years has been unemployment, and the employment market continues to struggle. So if we see unemployment softening, as we're seeing it right now—and estimates for the GDP are actually—(inaudible) — lowered, we could potentially see more unemployment-driven foreclosures, too.

People of color and the elderly were the most harmed by this crisis. I'd like to throw out just three statistics that most Americans I don't believe are aware of but really should be. This crisis has resulted, according to the Pew Research Center, in the loss of 66 percent of net wealth for Latino households, 66 (percent); and for Asian-Americans, 54 percent; African-Americans, 53 percent; and then those numbers were measured as of the end of 2009. So since that time, we've had two more years' house-price declines. What's important about that is the overwhelming share of that wealth that was lost was in property values.

What's equally important is there are no public policy programs being put into place to help recover from that wealth loss. So for example, when you look at things like settlements, the largest settlement was the attorneys general settlement, $25 billion. But a borrower for compensating for having been—(inaudible) —upon improperly is eligible for a payment of 1,800 (dollars) to $2,000 at most. That's about 1 percent of the median-priced home. So clearly, this is not compensating for that damage.

And the only—as Lori pointed out in her presentation, really have been harmed. House prices are down more than 30 percent, with almost a quarter of homes upside down. The mortgages are valued more than the home. And for the elderly, they don't have another decade or decade and a half to recover. And again, I point out that this crisis, in my view, is not yet over.

Third is the recovery of the housing market is essential to a strong economy. Usually housing leads to the economic recovery. In this case, it's neither leading nor following: It's actually dragging the economic recovery, in part because we had $7 trillion of lost housing equity. A lot of that was bubble-driven. But even if you count for half of it, you're still talking $3½ trillion.

In addition, you have somewhere in the neighborhood of about $700 billion of mortgage debt upside down. That is a real drag on consumer spending.

And what's interesting and unfortunate is that in spite of the fact that we have house prices now that have declined probably about a decade's worth of decline and we have historically low interest rates, this would be the right opportunity to actually try and recover from this crisis by getting people into homes, rather than encouraging the rental market, moving toward the rental market. But instead, almost every federal agency is tripping over itself trying to find more ways for investors to buy properties to turn them into rental properties.

The problem for this, as all of you know who know about the home ownership market, is that in a solidly home ownership market, if all of a sudden it starts to be dotted with rental properties, that is going to damage the value of those properties permanently, simply because renters do not take the same interest in their properties as owners, because it's not their properties.

And then fourth is the economy needs more than just a housing fix. And I think this is really important, because when we talk about repairing the damage to the housing market, it isn't something that we can do by just loan modifications or any other type of foreclosure intervention. We need that, but we don't need just that.

And I think a brilliant paper that was authored by the Center for American Progress pointed out that there have been the addition of roughly 2 million–2 billion employable workers, mostly low-wage, into the global labor market; the enormous levels of debt in both institutional and consumers here in the U.S. and in Europe; and then the third is just the general global lack of demand. And that requires some type of response.

And the most significant and immediate response would be a short-term, medium-term, and long-term stimulus program that actually invests in new technologies as well as an infrastructure, as the president has talked about significantly. Instead, those—that encouraging strategy has been—(inaudible)—Capitol Hill going in the opposite direction, toward a fiscal cliff.

And so my fifth point is that a fiscal cliff is not just a fiscal cliff of the home ownership market; it's a fiscal cliff for the economy as well. We need to have a strong intervention into the foreclosure crisis to remedy that problem. And we also need to get the economy back up and running. And if we don't do those two things, my estimates are that we are in for a very tough time as we go to the end of this year and particularly into next year.

MS. QUINN: Thank you, Jim.

On that bright note—(laughter)—we will move to David John. David is a senior research fellow at The Heritage Foundation. He is the foundation's go-to guy for analyzing proposals that will affect financial institutions. He's been doing a lot of panels for social—for AARP involving Social Security recently. And he has some thoughts as to why the government's various loan mod programs have not met with much success. David.

DAVID JOHN: Thank you very much. Thank you very much. Lori, this is a great paper. And this is one that I—(inaudible)—using for quite some time, and I'm looking forward to the follow-up papers there.

One of the things that we lose in seeing charts and lines and things like that is the fact that we're dealing with real people here. If you haven't found it—I'm not sure if this is in the packet or not—there's a July 19th *New York Times* story on this study that talks about Roy Johnson from Mableton, Georgia, which is not too far from where I spent much of my youth, actually, in Athens. So we're talking about real people. But we're talking about individuals. And it is very easy to try to come up with a mass solution that's going to solve everything for everyone and to do it tomorrow.

One of the things that we've seen over time—this is one of the recommendations in Lori's paper—is the mass refinancings that lower the principals. As Jim said, this was not necessarily for the HAMP program the stunning success that it's been claimed. And I'm not blaming the Obama administration here. We have had literally probably about a dozen variations on this that go back to the Bush administration, and some of them are pushed by Congress, and some of them are pushed by the executive branch. But they have one unique common thread, which is they've all failed to meet what people wanted them to do.

The reasoning behind this, to a large extent, is the fact that it's believed that if people are underwater and they feel hopeless—and I'm not touching here on people who can't afford their mortgage in the first place or have lost their jobs or things like that; that's a separate instance—that they will leave—they'll walk away from the mortgage, and that therefore there will be still more problem houses. I've had increasing concerns as people who support this—(inaudible) —stronger and stronger ideals. Mass refinancings—the fact is that a mortgage is made one at a time and probably has to be refinanced one at a time.

The most recent is in San Bernardino County, and we do have two papers that are in your packet on that. One is by my colleague Andrew Grossman. And let me say, I am not a lawyer. I do have many other personal failings, but—(laughter)—so I am not in any position to discuss the legal niceties of this. What I will say, which concerns me very deeply, is that the San Bernardino situation is likely to backfire and hurt the exact same people that it most wants to help, precisely because—if you will notice that San Bernardino County—they're not going after nonperforming loans. They—(inaudible)—use eminent domain, if they actually do this, on loans that are up to date.

Now, this does eliminate the moral hazard question. But you have to ask yourself, if somebody has the wherewithal to keep their mortgage current at this point, to pay them up to this point, why is this—why should this be the subject of public policy? And I think that's especially true when you start to get into the $125,000-plus range individuals.

Essentially what you're going to see, as the paper points out, is that you're going to see mortgage brokers who are going to look at San Bernardino County loans and say, no, I'm not going to make a loan in that area because this is likely to be subject to some sort of litigation or a problem, or I may have the loan seized. They are not going to look at—they are going to put in stronger credit requirements, which is going to block certain individuals, in particular the lower- and moderate-income individual, from receiving mortgages in the first place.

And as this—if this goes into any sort of national level, we will see a higher level of reluctance to make more mortgages and to buy mortgage-backed loans, for the simple reason that you've added a new element of uncertainty and a new risk to this. When you have risk, the interest rates go up.

Last but not least, my final point—we now have to ask ourselves, with the signs of recovery, we—inconsistent as they are, whether or not the premise behind the mass refinancings of underwater mortgages is actually as valid as it once was. If people are likely to walk away from their mortgages because they feel hopeless, if you see in individual markets—and of course there is no national mortgage market; there are hundreds of local, individual markets—because the fact is that if I'm a worker in Chicago, the drop in housing prices in Detroit doesn't mean a blessed thing to me, especially if I plan on staying in Chicago.

So we have to ask ourselves, is it time to move away from the HAMP programs, the mass refinancings, and move into much more targeted and much more specific types of responses that look at individuals and specific groups? And Lori's study here gives us some ideas that will, in further study, give us additional ideas as to how we can specifically reach the borrowers who are in trouble who are over 50. Thanks.

MS. QUINN: Thank you, David.

Our next panelist is Janis Bowdler. Janis heads the Wealth-Building Policy Project at the National Council of La Raza. She advocates for fair financial housing markets for Latino families. And Janis is going to bring us some stories from the trenches, I think—(chuckles)—people who she is speaking with all the time, and what she sees in her community.

JANIS BOWDLER: That's right. Thank you. Lori, I also want to congratulate you on a great paper, really shedding light not only on the over-50 population, but breaking it out by race and ethnicity is so helpful. That's data that—(inaudible) —seen before.

We work—when we work in this issue, we hear so many numbers. And Jane is right: What I'd like to do is put a face on some of those numbers. NCLR is a national Latino civil rights organization. We're also what's known as a HUD housing counseling intermediary, and actually AARP is one as well. That means that we work in communities across the country to support housing counseling providers. Each year we work with 65,000 families. And those organizations and those families are how we keep a pulse on the community. So we hear the numbers, but we also get to experience the stories with our families.

I was struck by something that you were mentioning, Lori, in your—as you were rolling out the paper—and Jane as well—thinking about our older families, older couples that are having to move back in with their children. But the thing I haven't heard raised yet are older Americans who are actually primary caretakers for their children—their adult children or their grandchildren.

I worked on a paper a couple of years ago with Roberto Quercia from the Center for Community Capital, interviewing families that had experienced a foreclosure and looking what—at what happened to them afterwards. And one of these families was from Michigan, and they were the primary caretakers for their grandchildren. And so when—once they experienced their foreclosure, now they were—they had lost their jobs. They were in their late 50s. Their daughter had moved back in with them when she had lost their job. And that home was their last refuge. When they lost that home, the whole family was out. And that's one of the things that kind of gets lost in this conversation is the ripple effect that a single foreclosure can have.

So I wanted to share with you one particular story. This is the story of a family that's living in Boyle Heights, a neighborhood in Los Angeles. I'm not sure if anybody's familiar with that neighborhood: beloved by the people that live there, but considered maybe a rougher Latino neighborhood. This family had owned their home since 1961. But in the early 2000s they had been the victim of an equity-stripping scam at the hands of their pastor's daughter. And for those of you who are working in the community, you know that this is often how targeting happened, through a friend or some sort of connection that had trust with that—with that family and with that borrower.

But really through no fault of their own—they were an older couple that was taken advantage of and soon were not able to keep up with the payments. They were told they would be able to refi; of course, that's now a familiar story. And by 2008 they were not able to do that. But they seemed to be a good candidate for the HAMP program, and they applied for a loan modification. It took them over a year to get a trial modification. They made five on-time payments and then were told that their modification was denied, with no reason. Again, any of you working with families know that this is a familiar story. We're seeing this happen over and over. This is a family who clearly met all of the criteria and yet strangely was denied.

A couple of months later, they were told they were reinstated; denied again two months later, even though they were making all of their payments on time. Finally the servicer explained that they were denied because they were not the primary owners of that home—strange, since again, as I explained, they—this had been their primary residence since 1961. Well, we finally got to the bottom of the issue. As I explained, Boyle Heights is a little bit of a rougher neighborhood, and they were having trouble with their mail getting stolen. And they had opened a P.O. box. That created some confusion with the servicer.

OK, so at the behest of their counselor, they went and changed their utilities so that they would start coming to the house. They got a letter from their postmaster so that they could prove that this was in fact their primary residence. The servicer said, OK, I need you to resubmit all of your documents again for a third time—which they did. They complied. That package was received in early February. Their home was sold two weeks later. They lost the home that they had lived in since 1961.

There are so many problems with this story. A primary one that I'd like to focus on is that this family was a victim of what we call dual track. And this practice is actually prohibited under HAMP. It is prohibited under the servicing guidelines of Fannie and Freddie. And yet we see it happen over and over. Dual track means that they were under discussions for their loan modification, yet that foreclosure process proceeded anyway. And as a result, a family—who, again, met all of the criteria, had an advocate working on their behalf—still managed to slip through the cracks and experience foreclosure.

I could tell you dozens and dozens of more stories just like this one. But I'll wrap here and end with what I think—I hope that we have some time to talk about in the solutions, which is what more can Fannie and Freddie be doing? I mentioned that dual track in particular is something prohibited under the Fannie and Freddie servicing guidelines, yet we see it happen all the time.

There may be limits to what we are able to do at this point legislatively to resolve the foreclosure crisis. But as long as Fannie and Freddie are under conservatorship, there's a lot more that we can be doing there to reduce principal, to eliminate dual track, and even take that regional approach that you mentioned and really cater solutions to specific areas of the country and to specific populations. I look forward to talking about that more during our Q-and-A.

MS. QUINN: Thank you, Janis.

Now we have Deborah Leff. Deborah is the deputy counsel for Access to Justice project at the U.S. Department of Justice. This is a new initiative that many of you may not be familiar with, trying to address a continuing problem for homeowners of modest means who are facing foreclosure. And so we look forward to hearing about it. Deborah.

DEBORAH LEFF: Thank you very much. And let me join the choruses commending Lori and the AARP for this groundbreaking study. So much of what we do is dependent upon data, and this is an area where we have to see data. You can't change solutions without data. So we really appreciate it and really think that it advanced the field.

As Jane mentioned, the Access to Justice Initiative at the Justice Department is relatively new. We were formed in 2010. And we work within the U.S. Department of Justice, across federal agencies and with state, local, and tribal stakeholders to improve access to counsel and legal assistance and to improve the justice delivery systems that serve people who are unable to afford lawyers in both the civil- and criminal-law contexts. And so foreclosure mediation has been on our screen since the very beginning: first of all because we see a need to improve access to legal services in high-stakes civil legal proceedings, for—especially for vulnerable populations such as older Americans; and second, because we're always interested in research on—(inaudible) —programs.

My colleague Malena Clark (ph), who should have been here today but had the audacity to give birth last week—(laughter) —has done a remarkable job—(inaudible)—foreclosure mediation issue. Previously coming to us, she did some studies with the Brennan Center, which has done some of the best work on foreclosure mediation. And one of the things that the Brennan Center reports in 2010 and 2011 point out is that foreclosure can often be avoided if people have the right legal help. Many borrowers have legitimate legal defenses to foreclosure, and those could be raised with skilled advice and assistance. And lawyers can help people negotiate the byzantine big loan modification process.

Here we have what for many people is the most significant legal event of their lives, and yet they have to face it without legal assistance. Let me give you a couple of examples from that Brennan Center 2011 report. In New Jersey, defendants in 93 percent of foreclosure cases in 2010 had no attorneys of record. In Connecticut, defendants in 74 percent of the state's foreclosure mediation program did not have legal representation in 2010. In Franklin County, Ohio, homeowners in 87 percent of cases scheduled for mediation did not have legal representation in 2009 and 2010.

Mediation programs provide an alternative form, outside of the court proceedings, for homeowners to meet with lenders' representatives and negotiate their loan terms with the goal of preventing foreclosure. But it's used—(inaudible). Now, we have in your packet a little handout of what we call mediation and how it works. Our definition of mediation is that it's a form in which homeowners and lenders meet with the assistance of a neutral third party who helps facilitate an alternative to foreclosure in circumstances where such an outcome is feasible.

And what we know is that these kinds of discussions, where we can bring into consideration mortgage payment assistance and—(inaudible)—reduction programs, counseling assistance, funds to promote—(inaudible)—stabilization and regulatory reform—considering those factors at the table could make a difference of we could—we can coordinate those foreclosure mediation tools.

So right now about 16 states have statewide foreclosure mediation programs, and another six states have foreclosure mediation programs in counties—most notably, I think some of the strongest are in Cook County, Illinois, and Philadelphia. Not all mediation programs are created equal, and we'll talk some later in this forum about the importance of evaluating the programs. But those have been most successful, those 70 (percent) to 75 percent settlement rates—and about 60 percent of homeowners reach settlements that allow them to remain in their homes. Even of those that fail, a graceful exit can be negotiated so there can be some discussion of how people will leave, and they're not simply thrown out on the streets.

In this economy, the pace of new programs has slowed because of the pressure on state budgets, and a few have been eliminated, most recently Florida and New Hampshire. But that said, several new programs have come online, just this month one in Oregon and also in the state of Arizona. There are different kinds of mediation programs. It depends on whether it's a judicial state where lenders have to appear before a court and file a complaint or a nonjudicial foreclosure process; whether the programs are mandatory, applied to everybody, or whether they're voluntary; and whether they're mediation, in which there's always a third-party mediator, or a conciliatory, where you reach out to the third-party person as needed to bring them along.

And I encourage those of you who—to look at the Access to Justice website at justice.gov/access and to look at our foreclosure reports under the report section. We issued one in 2010 on emerging strategies for effective mediation program, and we pointed out that the key features were the program design, the counselor and attorney participation, including whether those people had training, and whether they were opt-in or opt-out provisions. So for example, we know that where mediation is mandatory, in other words, you would have to actually opt out to get out of mediation, that you have significantly more success, that more people were involved. And Connecticut has actually done some studies on this recently.

So our takeaway themes are that good mediation programs appear promising, but that much more studies need to be done, that only a few jurisdictions have engaged in in-depth study of program outcomes, and that we need to know the real and comparative impact of intervention, you know, what happens if you do have mediation, if you don't, where it varies by region, what type of housing counseling assistance is most effective, what type of legal assistance is most effective. And we're very pleased that as a result of the housing settlement—Jim mentioned this earlier—$2.5 billion had been set aside for these kinds of programs that could help consumers directly. We at HUD met with states' attorneys general, and many of them are actually starting to fund these types of programs. We'll be blogging about it later today on the Access site.

Thank you.

MS. QUINN: Thank you, Deb.

And now Paul Willen. Paul is a senior economist and policy adviser at the Boston Federal Reserve. He is an expert, I would say a superstar, on the mortgage markets. I've read his material for years. He—especially the subprime markets. He has thought a lot about why it has been so hard for policymakers to find ways of solving this crisis.

Paul, over to you.

PAUL WILLEN: OK, just let me start by saying that I come to you today as a researcher and as a concerned citizen and not as a representative of the Federal Reserve, so when I say "we" I don't mean Ben and—

MR. : (Inaudible.) (Laughter.)

MR. WILLEN: And so I think the idea that it's—the renegotiation, in particular, principal reduction—I'm going to focus on that today—is a sort of magic bullet for the housing market has been something that has really prevented us from solving a lot of problems over the last six years. And this is—the simple logic that people always use is isn't it the case that if you're going to foreclose on the property anyway, the lender is just going to recover—he's not even going to recover the value of the house; he's going to recover something less than the value of the house because of all the deadweight costs of foreclosure. Wouldn't it be better for the lender to write down the principal some amount above what they would recover from the foreclosure but less than the value of the house? And the worst win-win always comes up because the lender gets more than they would from the foreclosure and the borrower gets to keep his house. And this has been the magic bullet; this has been this idea that this is the solution; if only we could do this, we could solve this foreclosure problem overnight.

And we have been saying now for years this is not the right logic. It is not the case that reducing principal to an amount below the borrower's—the house's worth is almost never in the interests of the lender. And the reason is because the error here is that people say, well, we see borrowers with negative equity, and borrowers with negative equity neither should or will all default on their mortgage. And you need to make that assumption that a borrower with negative equity is definitely along the way from his mortgage in order for that to make sense.

And this is one of the remarkable things—rare, but this is somewhere where economic theory and the data actually match up. So economic theory says that just because you have negative equity on your house does not mean that you should stop making your mortgage payments. And, in fact, in the data we see over and over and over again that people even with very deep negative equity continue making their mortgage payments. And so for the lender, if they—if you have a borrower who is making his or her mortgage payments and you write down the principal and if they are going to pay off that mortgage, which most of them are, by writing down principal, you lose money. And so I'm aware that if you foreclose, if you knew the borrower was definitely going to default on the mortgage, then it would make sense to write down the principal. But if you don't know, then you start losing money. You will lose money by running down the principal that much. So if there's a hundred thousand dollar mortgage and the house is worth $50,000, it is not the case that the mortgage is worth $40,000. The mortgage may be worth 80(thousand dollars) or 90(thousand dollars), or it could even be worth a hundred thousand dollars, despite the fact the house is only worth 50(thousand dollars). And what this has meant is that the scope for foreclosure prevention is much smaller than people think.

And so all through the crisis, there's been this idea that we have this grand proposal that's going to solve the foreclosure problem. There is no grand proposal that will solve the mortgage crisis. What we're going to do is we're going to keep on doing these things, small things that work for some borrowers. They're—we going to need to come up with lots of different things, which we have to some extent come up with, you know, tailored to the different situations. There are borrowers who live in—you know, there are homes that are new construction; there are homes that are in old neighborhoods; there are borrowers who've lost their jobs; there are borrowers who are living in subdivisions which—in which there are no other people. There are all kinds of different problems, and there are different ways in which we can mitigate losses. But I think loss mitigation has been this kind of—it's not loss mitigation; we end up talking about utopia creation. We are going—loss mitigation is working around the edges. It's not something where we're going to prevent millions of foreclosures.

So just as an example, this eminent domain idea that's come along, there are and there may be deep legal questions about property rights, but the logic behind the proposal, if you read it, is that a mortgage on an underwater home is worth—sells at a discount to the value of the home, not the value of the loan. And that is just bad math. A loan—a performing loan is never worth 40 cents on the dollar. It's going to be worth—and a lot of these loans, because the coupons are big, these loans could be worth more than the outstanding balance of the loan. It will never be logical for a lender to write down a loan to 40 cents on the dollar when the loan is trading at 110 cents on the dollar.

And to be clear, the Constitution says "just compensation." The Constitution—so I don't know—and in the document, there's one—in the material about eminent domain, there's one brief paragraph about the valuation of the house. I have no idea how they can claim that a mortgage that is performing will sell at a 20 percent discount to the value of the house. That means—so if it's—the house is worth 60 cents on the dollar, but 60 cents—percent of the value of the mortgage, then the—this loan is going to sell at 50 cents. I have no idea where they come up with that. They make some mention of discounting cash flow analysis. No discounting cash flow analysis will ever give you that number.

And this is important because it means that what's going to make—well, the reason it's going to fail is not because of some legal issue, although there may be other legal issues. It's going to fail because they'll never be able to convince a court to sell a loan for 40 percent of what it's trading at on the market. That is not—that's just—in fact, people are confused about this, and they say there's an economist who wrote, using eminent domain would impose losses on investors. You can't—that whole principle of eminent domain is it's not designed to impose losses. It's supposed to make the person who loses the property whole. It's not about taking property away from someone.

So that's all bad news. I think the good news—(chuckles) —if there is any right now about the foreclosure crisis, which still goes on, is if you look at Massachusetts, one of the reasons why we got involved in this sooner than other people is Massachusetts—the foreclosure crisis started sooner in Massachusetts than it did elsewhere in the country. And also Massachusetts had the—not quite unique, but had the—had been through a unique opportunity to research a crisis much like the one we're in now that occurred in Massachusetts in the early 1990s. And in the early 1990s we had, like, a bad recession, high unemployment, and negative equity of roughly 20 percent of mortgaged homes. So it was not dissimilar from the situation we see here in the country as a whole. And what happened? Well, at some point the housing market started improving despite the fact that there were massive, still massive numbers of—amount of foreclosed property, large numbers of foreclosures. The economy started growing in 1993. Massachusetts had an unemployment rate which was—(inaudible)—like 3 percent above the national average. By 1996 it was right with the country as a whole.

So the idea that this foreclosure crisis is going to make it impossible for the economy as a whole to grow, I don't see that. I think the economy can recover. Once the economy starts recovering, that will be good for the mortgage market. But there's no reason why the presence of a lot of foreclosed property is going to prevent either the housing market from recovering or the economy from recovering.

So that's—I don't know whether you'd want to call that good news, but that is—but I don't think there's anything holding us back right now, at least from the housing market. But I think it's important going forward in thinking about policy—and we've been saying this for years now—that we focus on problems we can solve. There is no magic bullet; there is no game changer; there is no global solution that will make all the people who did good things better off and all the people who did bad things worse off. That's not public policy; that's just dreaming. (Laughter.)

MS. QUINN: Well, should we just go home? (Laughter.) Both David and Paul are basically suggesting there's not a lot you can do, and each time they said it, I saw Jim going like this. So I think my first question is to Jim. Do you want to respond to what David and what Paul were saying?

MR. CARR: Sure. So let me start with Paul first. I think when we're talking about principal reduction, it really is disingenuous to refer to it as the magic bullet, the single solution, that will resolve the housing crisis tomorrow. It really diminishes what people are saying about principal reduction. Simply what we're saying is that we're in a national housing crisis that has now lasted for six years. And whether you believe that it will somehow magically turn the corner or not, the fact is we're in year six and right now the data looks really bad. And so what do you do about it? And the response is we should be doing everything we possibly can, putting all the tools we have on the table. And one of those tools is principal reduction.

The idea that somehow you have to have a—so first of all, it's a magic bullet; I don't know anyone who seriously thinks it's a magic bullet and it's going to resolve all the problems, because the reality of it—and this goes to something that I think David alluded to—was sort of the mass modifications. One of the biggest problems is that the rules, as Janis pointed out, just aren't followed. So again, six years into the crisis servicers still lose documents, misrepresent what the options are to the consumers, refuse to give them modifications when they actually qualify for it. It's a lot of misbehavior on the part of servicers. The excuse continues to be that servicers aren't really structured to do those types of modifications en masse.

Six years into a crisis that's no longer an excuse. We should have federal agencies actually enforcing those rules with stiff penalties when they don't and solid appeals processes available to consumers immediately to get financial redress that is equivalent to the cost of the home that they lost. That will change behavior, and I believe that will actually turn the corner and get probably about half of the modifications, if not two-thirds, that should have occurred to actually occur.

Then the question is what do you do going beyond that. Well, then I think—I think the point that was made about more customized outreach, I think absolutely correct. Having more regionalized, focused solutions focusing on consumers of a certain age group might be good. But that would actually be a sea change from where we are right now because these servicers actually don't go out and offer customer service and try and resolve problems. In fact, they are the problem right now. So I think we need to resolve that.

I think there are other things. Access to legal advice is another important tool, as been mentioned, as well as mediation, but mediation with a strong legal adviser helping the consumer, and then finally principal reduction. Why? Because several studies have shown that principal reduction, when it's included as part of the package of modification, creates a more sustainable loan product. There are ways you can define that principal reduction in a number of ways that limits it in—to those consumers who most need it.

And it—there's no—I don't know anyone who says principal reduction for all loans that are upside-down. You can do it on LTV; you can do it on type of the market, the—you know, the failure in the market house prices in the market in which that house is located; you can do it for consumers who have either experienced underemployment or unemployed or in fact have had to get a new job as a result of the recession, but they're now at a—they're being paid less. So in lots of ways, you could define how you offer this principal reduction. I believe it's absolutely essential to put every tool on the table and not write any one off, and also not overrepresent what you expect one tool to do, because no one tool is going to resolve this housing crisis.

MS. QUINN: You want to respond to that, Paul?

MR. WILLEN: I think people do think principal reduction is a magic bullet. I think that's not fair. I think that, you know, the amount of animosity toward FHFA and people saying that, you know, Ed DeMarco is the one thing standing between us and the recovery—I think a lot of people do view principal reduction as a magic bullet, and I think the people pushing this eminent domain plan, which has gotten an enormous amount of attention, are not—it is not the plan which is tailored to specific borrowers and specific situations. (Inaudible) —I'd argue it is tailored to specific borrowers, borrowers who are making their mortgage payments. It's exactly the opposite of the people you mentioned.

This is—and this plan has gotten enormous, enthusiastic support from lots of different people. And I think people view it as finally we're going to do something about negative equity. And so I don't—I don't think it's fair to say that people have not viewed the loan modifications as a—as a magic bullet. And I just—to go back, and I think the point is—about this is we're going to do a lot of small things. I think it's important to understand that we will never get anywhere close to the number of loan modifications that people think is sort of fair or just or due. That's just—that's just not going to happen. I think that's when you have to be realistic about it.

MS. QUINN: Janis, you—

MS. BOWDLER: Yeah, I'm going to jump in since I'm one of the people who has singled out Ed DeMarco as one of the major barriers to our recovery. And so let me come to my own defense here on that and on principal reduction.

One of the reasons that I make that case is because we've tried a lot of things. To Jim's point, I don't think it's fair to judge all of our solutions that we put out there on their face because they—none of them have been implemented properly. And so we've not really been able to see whether any of these programs work. If folks had looked at the paper this morning, you may have seen—(inaudible) —another—a clip from his book, I believe, ran in Bloomberg looking at the issues with TARP and HAMP implementation. NCLR has been a major vocal critic of the HAMP program. None of these have been implemented in a way that we could hold them up as models. They've all been failures.

Principal reduction is something that we haven't given a fair shot yet, and in a political environment where we're not going to get more money, we're not going to see another major legislative package, what we can do with Fannie and Freddie is the one thing that we can really affect. So it's not that I think that principal reduction is the silver bullet, but with Fannie and Freddie controlling two-thirds, approximately, on average, of the loans serviced by the five major servicers, that's a big chunk of loans that we can have some impact on.

But let's peel it back a little bit more. Again, to Jim's point, certainly not—I'll just speak for NCLR—not advocating for principal reduction sort of willy-nilly on any loan, but using some math, using that present value to really look at where does this makes sense. When you're working with families on the ground, there is nothing more frustrating than seeing a home sell for pennies on the dollar at sheriff sale when you had a family that was willing and able to pay for the mortgage, and even a modest principal reduction to get them under 115 percent LTV would have made the difference in them being able to stay in their home. It might even make a difference in terms of them being able to quality for a refinance. And this is an area we haven't given a fair shot.

But let me also, Paul, agree with you on one thing. There's a lot of talk about this eminent domain program, and I think we should be clear that eminent domain is certainly not a silver bullet. It is a tool that can be used positively. But I just want to flag—I'm happy to talk about it more—that eminent domain for me raises a lot of fair housing questions as well and has a pretty mixed history at best in how it's been used in neighborhoods of color. And if we don't think about that at the outset and how this tool's used, I certainly am worried about this being used as a tool that could further disrupt communities that have been so hard-hit.

MR. : I also have to say that if you read the press, if you follow the debates in Congress, that refinancing has been represented as a silver bullet. They just haven't worked. Now we can say for a wide variety of reasons that they (haven't?) worked. And the example that you raised is one that it's clear that rules were broken. And I would hope that you filed a suit on behalf of that family.

MS. : (Off mic)—finding myself a good lawyer. (Laughter.)

MR. : (Inaudible) —eminent domain question, again, just for a moment, then we can dismiss this—the eminent domain came up because of a venture capital firm. Now, most venture capital firms are not public interest employment groups. They tend to want things like, God forbid, profits, which is probably why they are focusing on performing mortgages. And I have to agree. The math is very clear. A performing mortgage is never worth less than a hundred cents on the dollar, as long as it's performing. Once it's not performing, then the value may drop rather precipitously.

And probably, we also come up with (always?) Congress—Congress in—I hate to say the administration—and I don't mean the Obama administration; I mean the executive branch—they look for a big program, a way to solve everything. H. L. Mencken had a wonderful—and I'm paraphrasing here—that for every complex public policy problem, there is an answer that's simple, easy to understand, and completely wrong. And unfortunately, Congress looks for the simple solution in this, and there isn't one. Mortgages, as I said, were made one at a time. Each individual has a circumstance, whether it's the family in Ohio here, the *New York Times* example in Georgia, or people probably less than a couple hundred yards from this building who have this, and they have to be resolved in that way. And that requires a great deal of time and a great deal of effort and a great deal of expertise, whether it's from the Justice program or various sundry others. We can't go through and solve it with a magic wand.

MS. QUINN: Well, one of these things—and it goes to what Deborah is doing. Janis says, Where do you get a lawyer? I want you to know I get tons of email any time I write about this with a sad story and saying, I need a lawyer. And they can't afford a lawyer. They can't find lawyers. The lawyers don't exist. We've had serious problems in enforcing the law here. Maybe, Deborah, you could speak. I mean, it's still the number of people you can help is not very large at this moment, (I think, right?). How do we solve Janis's problem? How do we enforce laws we have with the servicers and what not, that they're just as not—and is that the kind of program that we should be putting money into? Should we say, OK, we all love lawyers? We'll—let's train a lot more to go do this?

MS. : (Off mic, laughter.)

MS. QUINN: I was aware—I was aware of that. (Laughter.) My late husband was a lawyer. I've got a little soft spot for lawyers.

MS. LEFF: But I'm actually very taken with your point about looking at cases one case at a time. One of the interesting things about the Philadelphia mediation program is actually this remarkable local judge, Annette Rizo, who said, you know, we're going to take the cases that we know are going to foreclose, and we're going to do something different. First of all, we're going to send folks out into the neighborhood, these blighted neighborhoods, and say, What kind of help do you need? Come in; let us get you some housing counseling. Sometimes it's a lawyer and sometimes it's not. But there are people who are very wise about people's rights and can help them one person at a time understand what the rights are.

Often there are violations that have occurred that the individuals don't know about. They feel completely helpless. And having a housing counselor or a mediator there can resolve it. For the—for the servicer, often they don't realize what capacity we can have, what they are willing to do, because those discussions never take place. So I'm very much for the individualized approach, for slowing it down and for getting individuals who are really facing foreclosure and in imminent danger of losing their greatest asset and probably their financial security for life, the kind of help they need. It's for that reason that actually our office and HUD sat down and had this conference call with the states' attorneys general and said, Look, you know, this is one program that you ought to be doing; you ought to look at mediation for what it can do. It's not your magic bullet either, but we know that in many cases it's helped people avoid foreclosure.

MR. : I just want to make a quick point about the loan modifications themselves. I think we have to accept that to the extent that the permanent loan modifications from the HAMP program, to the extent that in fact they work, that you don't see redefaults very high, then we have to conclude that, in fact, loan modifications, in some way, are a silver bullet, and they do—and they can work if, in fact, the rules are followed. And I think it's unfair to say that the program can't work if, in fact, the rules aren't being followed. The solution isn't to say, oh, well, then let's not follow—let's not cut the program because we're not following the rules, it's enforce the rules so that you can have the outcome you want. The redefault rates on loans before the HAMP program, the modifications, were not really well done, and they were in excess of 40 percent or more. I believe the HAMP redefault rates now are as low as 15 percent—that's the last numbers that I saw—which suggest that if they're done right, that they work. So the solution is, Do them right. Don't throw the program away.

The other thing I want to point out is about the issue about the—there's no such thing as a nonperforming loan if the borrower's paying on it. I think that's really questionable to the extent that if the loan—if the principal's upside down, the second lien is not worth anything. So the fact that a consumer's paying on it is interesting, but the question becomes, When do they stop paying on it, which is what's led a lot of people to conclude there are a lot of—(inaudible) —because they're holding hundreds of billions of dollars of second liens for which, yes, the payments are being made, but the loans are technically worth nothing because the principal is upside down.

MR. : That's when they aren't. If the borrower's making the payment for a loan that's worth—(inaudible).

MR. : I'm only making the point that's debatable. And we'll see as we go forward—(inaudible) —economy that is not doing so well.

Let me make my last point. My last point is, I think it's important not to conflate principal reduction with eminent domain. And I was just concerned that the way it was being put forward is if somehow they're tethered together. I do believe that the eminent domain—the history of eminent domain, particularly communities of color, is problematic. I'm not sure that that's a solution that I could recommend anymore. So that's one thing that Paul and I can agree. (Laughter.)

MS. QUINN: So I—so all these complaints about we've got these laws, they would work if only everybody followed the law—does anybody have any—the policy proposal should be, how do we get them to follow the laws? I mean, one thing to say, Oh, dear, they don't follow the laws. There's nothing we can do. What, what?

MR. WILLEN: Well, there is one thing we can keep in mind about the rules. I mean, one thing—and we talk about this—the investor—I mean, all of the—all the stock that's gone through any of these programs is still subject to the provision that it has to be in the interest of the investor. So regardless of what the rules are, the servicer must act in a way and there—they have a legal obligation—and their only legal obligation—is to the owner to the loan. And that always comes back to the fact that that is first and foremost—in fact, in designing HAMP, there's always this crazy thing in there where there's a bunch of rules, but then they say, this always has to be done in the interest of the investor. And that's the problem here, is finding modifications and finding things we can do that are—(inaudible) —prevent foreclosure but that are in the interest of the investor. And you can't forget that.

And so one thing that's important to understand about the terrible way they handle documents is, banks handle documents in a terrible way on everything, and in a way that seems counterproductive whenever you're contested. And I—this is—I mean, for example, I had a—just finding you have a wrong charge on your credit card statement, they will make you fax a document in to them. And you say, You've got to be kidding me. Isn't there somewhere I can email this to? And they say no. And you've got to go down and find the fax machine and find someone in the office who knows how it works—(laughter) —and fax a document in to them. And why do they do that? In fact, on your credit card statement, it actually says that you can't even fax them. You have to mail your thing and mail a signed document. Why do they do that? They do that precisely because it makes it more difficult for you to do it. They do it precisely because it is—it's a way of screening out sort of frivolous complaints. This way, only people who are really determined will do it. And that has been—it's a terrible, cruel, stupid way to screen people, but it evidently works because they continue to do it. And the problem is that may be in the interests of the investors. It may be in the interests of the investors for them to do all this stuff using paper. And that's the thing we keep running up against. And so let me just say, I think—what I keep coming back to on the—I'm not saying that we can't prevent foreclosures; we can, but it's going to cost somebody money. And it's either going to cost the taxpayers money, or it's going to cost investors money. But we can't do it for free. I think that's been all along the problem is that it—there's no free solution out there. We are either going to have to impose losses on investors, or we're going to have to impose losses on taxpayers. That's the way you prevent foreclosures.

MR. CARR: So I think it's important to distinguish between "impose a loss on an investor" or "force them to recognize a loss," because they're very different conversations. The second thing is that it's important to point out the HAMP program—the cornerstone of the HAMP program is something called a net present value model that in fact ensures that it is in the benefit of the investor as well as the consumer. But it's in the benefit of the investor. So there wouldn't be a program in which these investors are somehow being taken to the cleaners and money would be taken from them if it wasn't in their best interest.

And the final point to your point, Jane, about what could be done: One of the more interesting public policies is that bankruptcy protection does not cover the principal resident. But if the consumers could actually go to a bankruptcy judge to have their mortgage debt outstanding adjusted, I think that that would encourage servicers to get a lot more serious about doing the kinds of modification that would be in the best interests of themselves and/or the investors, because they know that if they don't act, someone else will. And that's one of the problems we have right now. If they don’t act, the consumer loses their home, they lose their property, they’ll lose their wealth, they may lose their neighborhood, and then the end is they don’t get anything from it. There is absolutely no legal redress to compensate for the damage that’s done to them.

MS. QUINN: Dave.

MR. JOHN: One of the things that is forgotten here regularly when you talk about an investor and forcing them to recognize their losses is that timing actually has a certain value in that. So for instance, if I am an investor and I bought a hundred bucks worth of stock and the stock is now trading at 60, I only have to recognize that loss for tax purposes at the point that I sell it. So if you have mortgage loans at this point, and mortgage loans are valued on your books at a hundred cents on the dollar, and they’re especially valued on hundred cents on the dollar if they’re being paid—and that’s regardless whether they’re first or second—(inaudible) —you don’t have any need to recognize the loss if there actually is a loss.

And what do you do if you’re an investor and you have someone who is behind on their mortgage now or if the mortgage is underwater, and as various individual markets continue to recover, the value of that loan goes back up? If you impose on me a loss at a particular time, I must recognize that for tax purposes, which will affect my tax liability, which is a genuine loss to an investor because most of them try to arrange the timing of losses so that they can offset them with gains and the like. So there’s a real cost to the investor there, plus the fact that it’s going to be a temporary situation. So this is not a simple matter where you simply say, this is justice; the value of the loan is balanced, so therefore we get to force you to recognize that loss the day after tomorrow.

MS. QUINN: Can I ask you if there is one, what—maybe one simple thing—this goes to Janis talking about the double track. I mean, it would seem to me that that ought to be a fairly simple thing. While you’re in loan mod, you shouldn’t be put in negotiations; you shouldn’t be put on a foreclosure track. And I think that’s now true in California, is that—and you—and consumers had something to do with getting that through, is that right?

MS. BOWDLER: We did, yes.

MS. QUINN: And is that a good thing, and is that something that other states should look at? So—

MS. BOWDLER : Sure. Well, I suspect that there’s differing opinions on this panel whether or not the California Homeowner Bill of Rights is a—is a good thing. What the bill did, for those that may not be familiar, is it extended the new servicing standards that were part of the 49 state attorneys general settlement to become law in California. That means it’s going to go beyond the five largest servicers. And they also gave borrowers a private right of action if their servicer doesn’t comply, something you heard Jim talk about. You know, there’s no redress right now when your—when your servicer breaks the rules. So—

MS. QUINN: If they can find—if they can find a lawyer. (Chuckles.)

MS. BOWDLER: If they can find a lawyer, which, you know, is the other thing. It's—well, we heard a lot of ruckus leading up to the vote about private right of action and all the frivolous lawsuits, and in fact it's a pretty high bar. There's not that many people that will be able to get access to an attorney. What it really is is a way to make servicers play by the rules. It's a behavior changer, as somebody brought up earlier. So that's really what it is. There's carrots and sticks. The HAMP program tripled its incentives for playing by the rules. California said, you can sue if they don't play by the rules. So there's now this trade-off here that's available in California.

I certainly think that it's something we're going to see other states take a look at because they're desperate to find a way for these rules to be enforceable. Again, we have—we have a certain amount of protections that are not being followed. I just—one little point on this. You know, we talk about who's going to pay—investors versus taxpayers. Again, I know I'm harping on the same point over and over, but when it comes to Fannie and Freddie, the investors are the taxpayers. So either way, what's going on there, every time Fannie or Freddie takes a loss from a foreclosure, that is a loss to the taxpayers. So what the right conversation to be having here is how do we make—how do we minimize those losses and try to reduce foreclosures at the same time? And in fact, can we reduce losses by reducing foreclosures?

There is a way to do it with principal reduction, and one important example—and again, I'm not saying that's the only way to do it—but one important example is Ocwen, which is a subprime servicer which has been doing principal reduction within its legal bounds and it—and having to comply with servicers. It does not serve Fannie—service very many Fannie and Freddie loans, if any. And the way they do it is by equity sharing so that as the value of the home goes up, some of that forgiven principal will get recaptured and go back to the investor. Again, this helps weed out some of the so-called moral hazard. It's a high bar; only if you really want it and need it would you engage in that program.

But that's not the conversation that we're having. So certainly I think we're going to look at states taking on—trying new things like this because the programs have been so poorly implemented.

MS. QUINN: Now, AARP, of course, has—as Lori's studies show, is particularly interested in how this is affecting older people, 50-plus and 75-plus being the worst. So are there—thinking about targeted programs—we've been talking about programs in general that basically deal with any homeowner—I want to ask all of you, is there something in particular we should be looking at with respect to the older homeowner as opposed—in this foreclosure issue, as opposed to others?

MR. CARR: Hey, I would say some type of targeted outreach that is done in a very consumer-friendly way would be really essential. I'm not aware that there are such programs. There may be, but if there are not, I would really recommend that. A lot of the elderly, in fact, are not necessarily applying for the relief that they could apply for simply because either they don't know about it, they're unfamiliar with the use of technology, which—that's where you find a lot of this information, or they may rightly be wary of anyone who's pitching anything to them because a lot of those consumers in fact were exploited with subprime and/or Alt-A or other unsustainable loan products, which is why many of them are in the predicament they're in now—not all, because a lot have just been affected by a decline in house prices. But I think that we should have it. We don't have a much more effective consumer outreach programs to affect vulnerable populations, and that would definitely include older Americans.

MS. LEFF: And let me echo that. I mean, I think one of the important things about Lori's study is it will make these programs, I think, emerge over time. In the area of foreclosure mediation, we actually sort of, when we knew we were doing this panel, started asking people. And Washoe County—that's in Reno, Nevada—has a special program on educating seniors about foreclosure. The Reno Senior Center actually has special courses. But other than that, there's not nearly as much specialized outreach as would be beneficial, and I think that's one thing to aim for.

The other thing that's worth noting is that the U.S. Department of Justice's Elder Justice program got together with its Office of Victims and Crimes, and were actually putting together legal training materials to reach out to elderly populations on a variety of issues. We want to train people who are in legal services to be sensitive to the special needs of older Americans and what special legal problems they have and how can—they can best address it.

MS. QUINN: David?

MR. JOHN: I think there's also the case that there is no one older American, in this case. I mean, Lori said he had three different ones, and each of those three are—(inaudible). If you're in your 50s, you've probably got 15, 20 years of working where you can still make some sort of a change in your mortgage and the way you're doing. But if you're in your 70s, you're locked in. There's not a whole lot of else there. And you have to make the assumption at this point that a fair amount of what would have been retirement income is probably going to this house already. And it may well be that in this situation, some sort of a graceful exit at the lowest possible cost is the only solution that's out there, as unpleasant as that is.

MS. BOWLDER: No, I agree with that, and something that I'm glad you brought up; I wanted to circle back to. I agree with the comments on the panel earlier. We're not going to resolve every foreclosure out there. And thinking about soft landings—it's a conversation that (we?) were having a couple of years ago that has really dropped off the map more recently. And what we haven't even really touched on today is on focus of today, but older Americans who are renters who are being evicted from foreclosed properties. And this is particularly important, again—I want to call attention to the subgroup of older Americans who are primary caretakers for their children or for their grandchildren, so that where most families, what they do after they experience foreclosure, is they move in with a relative, that might not be an option for these families. And again, they are going to be particularly vulnerable. Where do they go? And the question: We don't have the answer just—(inaudible) —becomes homelessness or homeless prevention or other (unstably?) housed challenges. So that needs to be a real part of this conversation.

And then I just want to also echo something that Lori brought up initially in her remarks that we haven't talked about yet on this panel, and that's foreclosure rescue scams, which are hot right now and they're particularly terrible—just terrible in places where you have high vulnerable populations, folks that are limited-English proficient, that are older, that are cut off from technology. They are desperate, again, because these programs are functioning so poorly and because they're so confusing. People are willing to pay and to spend their last $5,000. Again, so frustrating to see a family that dropped $5,000 on foreclosure rescue scam. For $5,000 and a free housing counselor, you could have made your loan right. But they didn't have access to that information. Again, people who are using the strategic outreach techniques are those—are those predators all over again.

MS. QUINN: Paul, do you have anything to—

MR. WILLEN: Just one—I just—on this—I mean, one of the things that the crisis has done is sort of damage the—it so damaged the credibility of the financial—I'll tell you one story. I was talking to someone important at a financial institution which was doing an outreach to borrowers who qualified for HARP refinance loans. And apparently, all these borrowers needed to do basically was sign something, and they would get a lower mortgage payment. And he said that the response rate on this was like 25 percent. And he was wondering why. And he said, Well, you know, after all these years, there was some part of me which was saying, you know, the people who are ignoring the lender are kind of rational, which is, if someone comes to you and says, look, I can lower your mortgage payment and make you better off in every imaginable way, that person, as a general rule, is probably lying. And so the fact that this is the one time when the financial institution is telling the truth—(laughter)—it's rational to ignore them. And so I think there is a problem, which is, you know, what my advice to my relatives about finance is—you know, generally someone comes to you with a—it sounds good; call me. And that's—and that's a real problem, which is that, you know, a lot of the time when you're trying to help people, it—it's good—it's right for them to be skeptical.

MS. QUINN (?): I have a different kind of question now, then we'll turn it over to all of you, because I know you've got different questions. Would it be smarter to just foreclose faster? What we're looking at are ways to string out foreclosure for this family or this family or this family. I know in New York I think it's almost three years people are living in foreclosed homes. You know, a lot of people are living in homes they can't afford. We have all of these programs. This is probably the skunk in the garden party question, but maybe we should just sell the—(inaudible) —at half price and move everybody through quickly and say, OK, let's get on with your life. Reactions? (Laughter.)

MR. : So—

MS. QUINN: Well, this has been a long time. And one by one by one, you know, is going to be another 10 years. So that's probably a rude question, but it's a question.

MR. CARR: So I want to respond to that, because I believe we already saw the services actually—(inaudible) —to do that. They ended up with the 49-state attorneys general suit for exactly that reason. I think, though, to the general point that you're making, it's really true, and that is, to the greatest extent possible, you want to get a homeowner who's in trouble, whose mortgage cannot be refinanced, to get out of that home as quickly as possible. I don't mean physically out, because they may remain as renters, but actually disentangled from the legal details and get on with it so that that property goes back to the market. And to the greatest extent possible, you want a homeowner who's leaving a property to actually be resold as quickly as possible.

But I think before we get to that is, those consumers who are facing foreclosure for reasons that they shouldn't be—that is to say, they deserve modification—that modification should also occur as efficiently as possible. So I would say the problem is not that we're not foreclosing fast enough. The problem is that we are not enforcing the rules of HAMP and actually having consumers who potentially could be modifying their product in their home, modified so that they can get rid of that financial nightmare, put it behind them, and help the market recover so that those houses that are going to go to foreclosure then ultimately can be put back into productive use.

Having said that, what's happening to those properties? Well, the amount of properties that are in default but not yet on the market ranges from whoever you ask, from less than a million to over 4 million (dollars). So no one's really sure exactly what the—(inaudible) —inventory is. We know there are a lot of properties out there. If all those properties just dump on the market, we will have—we will have potentially another round of catastrophic house price declines. So that would not be helpful.

The question is, what happens to it when they get to market? Are they being reabsorbed into productive use? And the answer is, right now, no, because the housing market is struggling. As I said in my opening comments, originations are now down to, I believe, a 15-year low. So that's not a healthy housing market. And selling them to investors, if you get them out the door and you get them in the hands of investors, it hasn't solved the problem, because that's dampening house prices even more.

So the question is, what can you do? And the answer is, you actually need to focus on rebuilding the homeownership market, and specifically on these properties that have been lowered in price. In this interest rate environment, this would be a great time to help moderate-income and middle-income households actually afford homeownership. One of the things we're forgetting, I think, in this debate is that the American home has been for over half a century the single most important asset of the typical American household. And we're forgetting that, and we're leaving that behind. So when I say the housing market has to be—has to be repaired in order for the economy to recover, it's because of that simple recognition that that single principal residence is the single largest source of asset accumulation. How do we just take that out of the economy calculus and say, OK, well, the economy's going to recover? So I just—I'll just summarize my answer by saying we need to modify people whose loans can be modified as quickly as possible. For those that can't, we need to get them through the foreclosure process and get those properties back on the market. Once those properties get on the market, we need to find a way to creatively get them in the hands of new homeowners so as to stabilize house prices even more and actually help them turn the corner and start rising.

MS QUINN: David.

MR. JOHN: I'd say, to answer your question, that if it's a fair process and the rules are followed, and the quicker it's done the—(inaudible) —the better for all involved, not the least of which allows the individual to start to repair their credit record and start to move on and build a new life.

I think, however, I'm going to—you may—this is a shock, but I'm going actually to disagree with something that Jim said—(laughter) —that I think we need to reexamine the role of housing. I'm not sure that—traditionally, just as Jim said, housing has been the builder. And there are definite positive social indicators for people who own homes—dealing with kids in schools and teenage pregnancies and crimes and alike, a variety (of other things?).

But I think, all of a sudden, we need to ask ourselves, looking at the experience in other countries, whether or not if this is still the case, whether there may not be some other way and it may well be that for certain individuals, they're better off running. They may be better off. And this is other than people in New York City, of course—just about everybody runs. (Laughter.) But essentially, we need to reexamine the role of housing in the economy and in particular in the case of social mobility. People may be better off if they rent and are encouraged to build assets in a different way, whether it's through retirement savings or other types of savings or other types of investment. This is a change in our economy, and I think that we would be seriously mistaken to just go back to the old assumptions.

MS. BOWLDER: Well, that's a whole other panel right there. (Laughter.) But let me—let me respond to that—(inaudible)—by saying that for the vast majority of middle-income families, working-class families, your house is your only leveraged asset. So no amount of being a really good squirrel is going to provide for the kind of intergenerational wealth transfer, if I can really break out the wonky terms, that a house can. So it's fair to say what we need to do to make sure that borrowers are prepared, that they're getting into homes at the right time in their life cycle, that we're not putting them in tenuous positions. But we don't have anything else that's going to take the place of that.

The question of should we just get the foreclosures, you know, out the door, you know, I agree very much with some of the comments that have already been made, that is, you know, there's two buckets of people. There are people who deserve loan modifications—and by deserve I mean that they meet the criteria, they warrant modifications, whether that's a principal reduction, rate reduction, or even a refi—there's some solution for them. There's another bucket for which there aren't solutions, and that debt overhang doesn't really help anybody. Our foreclosure counselors have these honest conversations with families all the time. If any of you are working on the ground, you know that that's the case. They're penciling out the math, and they're asking the family the hard questions.

But the challenge is, is that the solutions—you know, once you decide that that house maybe isn't the thing to hang onto, that there aren't good solutions either. There's real problems trying to get a short sale. There's a real problem—you know, again, programs that haven't worked—cash for keys, all these others—there's more we could be doing on lease purchase to allow families to stay in the home as renters, and as Jim said, disentangle themselves legally. We haven't figured those out either. So I agree the debt overhang doesn't help anybody. We haven't fully cracked that nut. And I'm going to take the easy way out and say that even if we thought that was a good solution, we don't have a way to do it right now anyway.

MS. LEFF: I guess my concern is that we're not starting with a level playing field. We're starting with a field in which one group has all the knowledge and one group is vulnerable. And one of the things that really interests me about—(inaudible)—programs is if you look at a city like Philadelphia, where Mayor Nutter put his strength behind it—the majority of people—and these were people facing foreclosure—the majority of those people actually were able to keep their homes. And so that's often because there were violations of the process. There was a lack of understanding of documentation. There was a lack of understanding of how far under water or what would be—what would be needed to set things financially straight, so that while I agree with speeding up the process in general to get people on a more secure footing—and in fact, most mediation programs have very strict timetables built in, and for exactly the reason that you suggest—I think it's also very important that we make sure to stabilize the playing field, to equate the playing field so that the consumer, the homeowner makes sure that their rights are honored, rather than simply whisking them through a process.

MS. QUINN: Paul?

MR. WILLEN: So on the—on the timelines, so we actually wrote a paper on this. And I mean, I think the—you can compare—there's a lot of variation—(inaudible) —in the U.S. in terms of how long foreclosures take, the judicial states versus the power of sale. And what we find is that the judicial states' foreclosures take a lot longer. But if you measure the benefit—so either the benefit would be that they get more modifications or that they're more likely to (cure?) in general in judicial states because the clock is longer—there is no evidence of that. The (cure?) rates are exactly the same. They're just as likely (to cure?) in a judicial state where the foreclosure process takes years as they are in a nonjudicial state or in a power of sales state, where the foreclosure process will take—can take months.

And the same is true of modifications. It's not the case that because there's more time, because the borrower has more time to work with the lender, that we see—are any more likely to see modifications in judicial states than in power of sales. So I think there are virtues.

I actually do agree that—and there was some talk of this several years ago, of somehow trying to make some sort of deal that a borrower—that you know, if a lender really did a good job, considering the borrower for a modification, that they could then—the foreclosure process would be smoother. But you know, the foreclosure process is entirely of importance, and there's a whole 500 years of, you know, English common law which manages—which is the kind of operating principle to the foreclosure process, and there's really not much you can do about it. So that's—(inaudible). So I think speeding up the foreclosure process, I think everybody would agree if the house is definitely going to end up in foreclosure, the faster you do it, the better.

On the question of homeownership, let me just say that this issue of leverage, it's exactly right to say it's a leveraged asset. When you buy a house with no money down or you buy a house with 10 percent down, that's 10-to-1 leverage. And with the—with the—you know, 1 percent down, it's a 100-to-1 leverage. And so leverage is great when asset prices are going up. But the reason we're in this mess right now is because leverage is bad when prices go down, and that's the problem with leverage, it's exactly the problem, which is your—you are—you know, you're—it makes you 10 times more—benefit 10 times more when prices go up, but it makes you 10 times more vulnerable when prices go down. And looking at what's happened and how sad and angry people are about all these foreclosures, you can't say that the costs of the risks of leverage necessarily justify the gain. So I think it's impossible to say—you can't say leverage is a great thing but only when house prices are going up. That's sort of a problem with leverage.

MS. QUINN (?): I think we—the speakers also came out of a tradition where house prices were always expected to go up, and it was a shock.

OK, questions. Please say your name and your organization. And the mic is right there, and let's do it.

Q: Hi. My name is Maya Rockeymoore with Global Policy Solutions. I'd like to ask the panel about this question in the context of our larger retirement security crisis. David, your organization has done a lot on retirement security prices. We know that 401(k)s have been a disaster for Americans, especially after the 2007 crisis. And I know that your organization's also focused on the partial privatization of Social Security as one of the "answers," quote, unquote, to securing America's retirement.

So with that, I would like to pose this in a larger context. We have a retirement security crisis. We know that the housing crisis is not just for current retirees but also more middle-aged and younger people. So it will continue to be an issue as time goes on because of the impact on the foreclosure crisis.

Yet our policymakers are actually talking about cutting Social Security in the context of deficit reduction. What we know from this conversation is that income security will continue to be a crisis for Americans of all stripes for the foreseeable future. So why are we actually talking about reducing protections further?

And I would like to pose to David, what—have you all rethought your answer to Social Security in the context of a larger crisis?

MR. JOHN: It's always good to see you. (Laughter.)

MS. QUINN: You mean you could have asked the question of yourself? Is that—(laughter).

MR. JOHN: I could have asked that question, yes. There are a couple of disagreements there. First of all, I would not argue that 401(k)s are going to—(inaudible) —especially when you look at the fact that most of the assets have been recovered or they've recovered in value. We believe that given—retirement security is a whole different discussion. We could go on for a good several hours on it. And I would be thrilled to do that at any point. The simple fact of the matter is that a 401(k) has many problems with it, all of which I would acknowledge, but given the lack of corporate defined benefit pension plans and the problems that we are seeing in state and federally or in local government defined benefit pension plans, that doesn't appear to be the answer either.

All retirement is risky. And the question is, just who's going to bear the risk and how that's going to be defined. The other part I would disagree with in—Maya is that if you go to—and I really didn't intend to do this—the Saving the American Dream Plan, heritage.org—it's—(inaudible, laughter)—and all that good stuff—it's a huge plan that has all sorts of unique—it basically changes the world. It's moved—(inaudible, laughter) —or something along—so there are a lot of different parts of it. But there is a Social Security plan in there, but it does not include any sort of personal retirement income as part of Social Security. It does have various other changes to Social Security that I'm sure Maya would also find to be disturbing. (Laughter.) But—(inaudible) —we had our approach.

She's right, though, in one thing. This is not just for today's worker. This is for our kids and our grandkids. And the decisions that we make now—whether it's in housing, whether it's in retirement, whether it's in tax policy next year, things along that line—are going to affect—have a long—(inaudible) —effect there.

I have two daughters. I would hope that we can follow the way that we have done in this country of leaving it a better country for our kids rather than stepping backwards. That's going to require some thought, and it's going to require some care, and it's going to require moving away from just bickering back and forth and making cheap points to each other on the floor of Congress or on the campaign trail. We deserve more than that. And hopefully forums like this will move to that.

MS. QUINN: Questions?

Q: I'm—great panel—John Nelson with Wall Street Without Walls. I'd like to open up the question of securitization. And Jim—(inaudible) —thought a lot about this as well, that if we could figure out a way to—(inaudible)—securitization—movement—(inaudible)—securitization for good, that is—in a, you know, protected way, wouldn't that be a big key in—possibly in terms of a grand solution?

Could you tie in a new securitization, particularly maybe for senior homeowners, if they tie in—this is where I'm getting a little kooky—to health care, taking care of usual health care situations—we've got zoning—(inaudible)—seniors living together—(inaudible, background noise)—something take care of each other, and if—what percentage of seniors have living wills? You've got—(inaudible) —performance bond, where the social performance bond related to how much you'd save, about one-third—(inaudible)—entire medical expenses, if we—(inaudible)—and gave people an—(inaudible). Is that too crazy, to kind of bring health care with the housing crisis with mutual—(inaudible)?

MS. QUINN: I'm not sure—I'm not sure how this is—what you're securitizing here. Have you any—(chuckles)—

Q: I'm securitizing mortgages.

MS. QUINN: Securitizing mortgage as a link to these other things?

Q: (Inaudible)—new security—new security that's not—that's not backed—(inaudible) —written—(inaudible).

MS. QUINN: Paul. (Laughter.)

MR.   : (Off mic.)

MS. QUINN: You're entitled to ask more questions.

MR. WILLEN: That seems like a rich proposal. (Laughter.) I—the only thing to say about securitization—we—I think securitization has been unfairly blamed. I don't think the securities were—the securities weren't the problem; it was the people trading the securities. And I think they would have done a lot of damage—

Q: Well, but they—but they wouldn't have—they wouldn't have—they wouldn't have secured them if they hadn't been insured with a financial insurance product that was—that was bogus.

MR. WILLEN: Well—(laughter)—OK. I don't have—OK. (Laughter.)

MS. QUINN: I think I have to say that I'm just a little unclear of what the security would be. So—but you know where to find me. You can send me the information. (Chuckles.) If I can clarify it, I would in fact be very interested in seeing something like that, so.

More questions.

Q: Dan Gordon with the Federal Reserve. A couple questions. One of the things that Lori pointed out is that people currently—older people have more debt in their—in their portfolio, especially housing debt. Some of that is because—(inaudible)—happening at a—at a later age, which—(inaudible)—question about how useful a 30-year mortgage is to someone who's—who buys a home when they're in their 30s; or that people who modify or refinance on a—on a regular basis, taking money out of their house—(inaudible)—Texas as a consumer-friendly place necessarily.

But one of the reasons why the housing crisis is not nearly as bad in Texas is because they have substantial laws preventing home equity loans from taking place. And so people didn't regularly pull money out of their homes in Texas, which has helped stabilize—(inaudible)—crisis. Is that something that we need to think about on a national level, one, in terms of making HELOCs or home loans or refinancing that—or you know, refinancing on a regular—(inaudible)—that doesn't happen as often, where that refinancing—(inaudible)—benefit financial—(inaudible)—homeowners—and also that 30-year fixed-rate mortgage not necessarily the product for someone who's buying a house in their middle to late 30s rather than their early 20s.

MR. CARR: So I think it's really—a really great question (in fact?). My concern is that it's not even the 30-year; it's the 40-year for some of the loan mods, and—in which you'll never really own that home. I don't think it's been examined well enough. And I actually haven't seen any real writing on it. But I think it's a really important question. It's one that I've thought a lot about, haven't written a lot about.

And I think it's where we need to rethink—(inaudible)—as we're thinking about the housing market, we need to rethink the instruments that are used to create home ownership. I mean, this is a perfect opportunity for it. And I think that one of the things that I meant is that we are really not thinking about what do we do to rebuild this home ownership market post the Great Recession?

When we had the Great Depression, we had a national moratorium on foreclosures. We refinanced people, and we put a whole host of institutions in place that built what was the modern housing finance system that worked up until the early 2000s, where in fact we stopped enforcing the laws and we allowed all these predatory products to filter into the market and result in ultimately bringing it down.

Because the damage has been so substantial, I think we need to rethink the whole securitization process, the origination process, the products that are used; and as part of that products that are used, looking to see the extent to which a 30-year still makes sense for certain households. So I—all I can say is I haven't seen a lot written on it, but I think it's part of the conversation that needs to happen, along with rebuilding the home ownership market post-Great Recession, which is not necessarily going exactly back to what we had before.

MS. BOWDLER: So I'll share my own experience as somebody in my 30s who recently bought a house with a 30-year fixed-rate BA mortgage. I was having a conversation with a colleague who's about 25 years or—-ish—I won't name names—older than myself—(laughter)—who had recently refied. And I asked them—I was like—(inaudible)—suddenly you just took on this mortgage, which was very daunting even for somebody that I've spent my (young?) total career in housing. I knew all about the process.

I was like, please tell me that there's a point where this gets paid off, because from what I can tell, the—what you're saying happens; people refi these things over and over—and wanted to know that there's hope for me that this thing actually does get paid off. And my colleague in fact informed me that they get paid off—federal mortgages in their—in their life cycle, and it was possible some kind of hope was restored.

But I—you know, I think one of the things that comes—that your question begs is how are we making our housing choices? I mean, the foreclosure process is really complicated. But you know what, the buying process is really complicated. And it's complicated for people who are sophisticated borrowers. And then in fact it's—varies by region, your own household balance sheet and microeconomy. And one of the things that NCLR has advocated for is that you—(inaudible)—me solid advice. There is a myriad of tools out there. A 30-year BA mortgage made sense for my husband and I; it might not make sense for somebody else. If you can get a 15-year mortgage, that might be a good option for you.

But chances are, unless a family sits down with a financial professional, they're not going to be able to make that decision alone. They're going to make a pretty good guess, and some of them make better guesses than others. But having better access to qualified financial advice is going to help people make smarter decisions.

As housing counseling providers, this is what we're in the business of doing for low- and moderate-income families that can't afford to pay professional financial advisers. One of the things that we're thinking about right now is how do we make sure that counseling is more built into our system going forward? During the bubble years, housing counselors were the ones telling families how to eat their veggies. You're six months, you're 12 months, you're two years away from buying a house, and yet there's a broker across the street saying, you know, I can get you into a loan today. You know, you know—and you know what? I'm bringing paperwork. That was our competition on a nonprofit salary with no marketing budget.

You know, if you—if you build those objective housing counselors into the system, we can help families make smarter choices, get into products that actually work for their family circumstances with the long view in mind.

MR. JOHN: And one other thing that we're going to have to look at—(inaudible)—public policy—(inaudible)—is what's the role of Fannie Mae and Freddie Mac? Do they exist? And if so how, and what are they supposed to do? Conservatorship, which happened five years ago now, was supposed to be a temporary situation. It was not intended to be a permanent case where Ed DeMarco got to be this housing czar of—(inaudible)—country, though I personally think he's doing a good job.

We've got an opportunity going forward to completely redo and reestablish the system of housing finance. And that includes new products; it includes changes in securitization and a whole host of other things. But that debate hasn't really started yet. And it's long overdue.

MS. LEFF: I think one nice thing is that we now have the Consumer Finance Protection Bureau. Those navigating these kinds of issues—it's almost impossible for the average consumer. And obviously, I mean, Richard Cordray—(inaudible)—just getting their feet on the ground. But their initial rules have been very good. And this will be one of their missions as we rethink what type of financial vehicles are important and what type of financial vehicles may give people the stability they want over the long term—helping people to understand—(inaudible).

MS. QUINN: Another question?

Q: I'm Vivian Vasallo with the AARP Foundation. And just two comments and a quick question. First of all, I concur with a lot of the panelists on the need for—(inaudible)—in the housing marketplace, especially as it pertains to older adults—(inaudible)—most of the housing market's been 30-year—(inaudible). But when you're in your 50s and 60s, is that really the best product for you? What are the options? So I think we need to look at the unique aspects of this target population as more and more Americans are turning 50-plus.

Second, I just wanted to share that through the foundation, through a grant from Fannie Mae we've been able to reach almost half a million 50-plus, trying to connect them to counseling and work with organizations like NCLR. And I think one of the challenges—and you know, Jim talked about the need for prevention and outreach, education and counseling—that's great. But again, we come across the same challenges that Janis mentioned in her story—(inaudible)—the process, the regulatory environment, the lack of enforcement. So we're able to reach people.

And I think one of the things that makes our program unique is that we use volunteers who are also 50-plus. And so rather than getting a call from your servicer or your bank—oftentimes it's probably a younger person who might be temping in a call center, that doesn't relate to the unique needs of a 50-plus. It may be that they're in foreclosure because they're caregiving, their spouse died. And so we've—(inaudible)—very effectful (ph) —very effective to have those peer counselors and those peer volunteers leading that conversation, being the broker.

My question is around—which I haven't heard a lot of today—is unemployment and the workforce. And again, speaking to the unique needs of the 50-plus, we know that when someone who's 50-plus loses their jobs, on average they're unemployed for 54 weeks. And so they've done all of the right things—and I've heard that earlier today, that there are people who paid their mortgage; who were working; saved for retirement; turned, you know, 50, 55; lost their job; and where they might have thought they would be unemployed for a few months, it's actually stretching out for years. And they're not being able to go back into the traditional workforce.

So just your thoughts on what are some solutions for this population, which makes up a large part—the 50-plus—who are facing, now, foreclosure due to unemployment?

MR. CARR: So I know that there was a program—the unemployment assistance program was an outgrowth of the HAMP program. But I hadn't really studied it in real detail. But my understanding is that that program has not really worked well. I'm not sure what the administrative complications or impediments have been. I think—(inaudible)—two programs I have in my mind. One has helped 5,000 consumers, and the other one's 35,000. So between 5(thousand) and 35(thousand), those numbers aren't really high.

I'm not exactly sure, because one of the most effective unemployment programs I'm aware of was in the state of—or is in the state of Pennsylvania. It was very effective before the crisis, but it's a loan for up to 60 months. I don't know the effectiveness of a loan program for an elderly family. It just adds more debt to the problem. So I really—I'm not really sure about the unemployment piece.

MS. QUINN: Anybody else on that?

MR. WILLEN: Unemployment has always been a problem. I mean, I think one of the problems with the initial responses to the crisis was there was this—the idea was that the problem was predatory loans and resets of adjustable-rate mortgages. And we've shown many, many times that when you go and you look at the—at the individual—at the household-level data, the micro-level data—resets of adjustable-rate mortgage were never a serious problem. All along the problem has been the combination of negative equity and some other event, usually job loss, that pushed people into foreclosure.

And the programs that we've had—HAMP, for example—we were always saying, 31 percent of your income—you know, you were supposed to be able to make a payment on 31 percent of your income. But for people who—the income is zero, you know, 31 percent of zero is still zero. And I think loan programs like the—(inaudible)—which is the Pennsylvania program, I think can make a difference, and—especially for borrowers who have some long-term—you know, they have a long-term ability to repay the mortgage, but they're having temporary problems. I think there are different kinds of solutions, like the Pennsylvania program, which I think—(inaudible)—

MR. CARR: If I could just come back to that a little bit more on Blue Sky. So one of the things I think is important is to—going back to Lori's study is that older households tend to have more equity in their homes. So the fact that 30 percent of all houses are—house prices have lost more than—we've had more than a 30 percent loss house value—that doesn't mean that's 100 percent. So a large share of that would be older households.

In terms of thinking about product innovation, I mean, one of the things we might want to look at is the extent to which the equity that's already been accumulated in a house could somehow be used in some way to compensate for payment on a loan over some period of time in order to give that borrower an opportunity to adjust. In other words, you can't make a payment? Fine; then some part of that equity in that home is actually able to be used for those payments.

I'm not exactly sure how you would design that product, but that to me goes to what we—what I think we need when I say we need some innovative products, because it very well may be that there are a lot of older households who actually just need a year or two to recover and then start paying their mortgage again. And they've got some fairly substantial share of equity that's sitting in that property. They're going to lose all the property because they can't pull, say, 5 (thousand dollars) or $10,000 from it. So I think, again, we need to be more creatively thinking about product design.

MS. QUINN: Isn't this where the reverse mortgage is supposed to come in? (Laughter.)

MS. : Yeah. Yeah.

MS. QUINN: I mean, this is—this is—

MR. CARR: Well, that's taking on a whole loan, and that's giving up the house, as opposed to you just—(inaudible)—

MR. : No, no. (Inaudible.)

MS. QUINN: No, we're doing just the reverse mortgage. Where you take a reverse mortgage, I guess the equity—if you have any equity left, which is—of course doesn't work if you don't have any equity left. But this is a very—I mean, this is a very serious issue of total financial planning. When you come to people in the 50, 55, 60; lost a job; don't have enough retirement savings; I—you know, there's a long mental process to—you don't just say, oh, I'm going to sell the house while I still have the equity. (Chuckles.)

MR. CARR: Well, so I—just to be clear—yeah.

MS. QUINN: So what is the bridge there that gets them from where they are now to where their future situation—mentally accepting what their future situation is going to be? And that's the kind of counseling Janis is working on. But—

MR. CARR: But I just want to be clear. I was not recommending that they sell the home. I was recommending that if they have accumulated equity in that home, that some portion of that equity be used to be set against the payments that they owe for a year or two. So how do you do that? I don't know; I'm not a lawyer. But I'm suggesting that it is very different than anything that's on the market right now. I'm not talking about a—(inaudible)—or reverse loan where you're literally changing the whole loan process. We're talking about—you've planned to make the payments; you can't make them this year, but you can make them next year. So for this year's payment, somehow some equity in your home is drawn down to cover those payments. That's a product that doesn't exist.

I see everyone scratching their heads, so it must be a problem. (Laughter.) It doesn't exist. But I feel good about—(inaudible)—product, OK?

MS. QUINN: (Inaudible)—now, that depends. You could—

MR. CARR: Thank you very much.

MS. QUINN:—no, you can get a reverse—no, I'm not going to argue here. (Laughter.) You can get a reverse mortgage that takes out your first mortgage, and then there aren't any payments. But there are—there are things that are going there. But it's an issue.

Next question.

Q: I just want to address a little bit more that concept. I am from the Philadelphia Diversion Program. My name is Elizabeth Shay. I'm a litigator. I work for the Senior Law Center. And we do have one of the—probably the foremost diversion court for mortgage foreclosure. And what you describe has been one of the—one of the things that I have negotiated. So I have six permanent modifications for seniors, which is remarkable because so few are getting them. But there were cases where there was equity in the home, so they were given a forbearance for a period of time, and then a balloon was added at the end of the mortgage to pay for that. And Ocwen did work that out.

The points I came up here to make were I think—I think the reason for the success in Philadelphia is because it's a judicial foreclosure state with an activist judge overseeing it, and she brings Ocwen into the courtroom when they don't act correctly under HAMP. And that's been a wonderful thing for my seniors and for the seniors of Philadelphia. The city itself, besides instituting the first diversion program, has expanded its help to seniors, and they've put in place with the different banks, Citizens Bank and PNC, fill loans and repair loans. So what they are are low-interest loans for seniors so they can repair their homes and not have to use their equity to do that. So it saves them from having to go to the reverse mortgage market. And it's been a wonderful product for low-income seniors because there were—it's a 2 percent interest rate, so it's very affordable for many of them.

I've also been able to negotiate with Ocwen as well. Life estates—we have a hospice program for people who are in mortgage foreclosure who are also in hospice. And we—I've been able to negotiate two life estates so they can stay in there until their death and then we'll take care of the loan. And it gives just everybody great peace and comfort at the end. And that's—so the point being, I think most people will see seniors as a sympathetic group, but they need to see them. They don't—you need to meet eyeball to eyeball across the table in the courtroom and then things happen, good things happen.

MS. QUINN: So are there more questions?

We're getting close to our wrap-up period, so let me ask the panel, actually, questions I told them I was going to start with, but you—but you all got so interesting that we went in a different direction. So here is my question. If you were czar—I now name you czar—you're running the whole foreclosure process; you can fix, change anything you want to. What is the one thing that you would do and—positively to say, we have to have this, we're putting it in place, and what is the one thing you would say, out of here; I'm going to stop it; it's not working; I hate it? OK? (Laughter.)

MR. : That's really difficult. (Laughter.)

MS. BOWDLER: Did you tell us you were going to start with that? (Laughter.)

MS. QUINN: I did. I—did I—maybe I missed Janis. (Laughter.) Every—(chuckles). So—but you've got three people to think. I told Paul. (Chuckles.)

MR. : But—(inaudible)—I would have to think of something that's expansive that has, like, at least 10 parts to it.

MS. QUINN: No, no, no, no. (Laughter.) One thing you think is really effective and we should do more of and one thing that you think is just not working and we should stop it and put the resources somewhere else.

MR. : I would say to me, the big thing we need to do is we need to get the servicers to follow the rules of the HAMP program as written. I think if we did that, we would eliminate probably 50 percent of the problem loans that we are facing right now. Just follow the rules as currently written.

The thing that I would get rid of—I'm not sure that I'd get rid of anything except misbehavior and following the rules. (Laughter.) I mean, I really believe that that HAMP program, the design of it, is a really powerful design if in fact it's implemented effectively, and I believe it just still hasn't been.

MS. QUINN: David.

MR. JOHN: I keep thinking of what happened to the Russian czars. They—(inaudible)—(laughter)—they keep—(inaudible). (Laughter.) They don't see my powers—(inaudible). (Laughter.)

Of the two that—I think what I would have more of is probably mediation and counseling. Again, I believe this is going to be an individual solution.

As far as getting rid of something, I see a potential problem. If we look at the tobacco settlement, we see a number of states who have used the settlement money for purposes other than having to do with dealing with the tobacco settlement. I've seen some indications that certain—a couple states here and there are thinking of using the attorney general settlement money for purposes other than dealing with housing crisis, and that's something I would knock out.

MS. BOWDLER: OK, I had two people to think. (Laughter.) I think I'd actually go back to something that you said, which is I think we may need to do a better job of having regional strategies. California's problems are not Iowa's problems are not the Northeast's problems; they're not the same in the Southeast. And I think the hardest-hit states fund was supposed to do a little bit of that, but again, poor implementation and uncooperative servicers kind of hamstrung us there. But if we—if we take what we can do with Fannie and Freddie and we look at some regional solutions, I think we could make some real headway.

Quite frankly, there's a lot of things that I would get rid of, one of which was just mentioned, which is we're going to have really millions and millions of dollars misappropriated through the AG settlements, states that have already diverted those funds away from housing purposes for all sorts of things under the sun. And quite frankly, the HAMP program, which has billions of dollars unspent—while I think that there are certain things that the HAMP program has achieved that are notable, in particular around standardizing modifications, we have not been a particular fan of that program, and I don't think it's been that effective. There's billions of dollars on the table I think we could use better if put to different purposes.

MS. LEFF: The thing I would want most is resources for consumers to understand the problem. That could be counselors; that could be lawyers. But it's incredibly complex. And you know, everybody I talk to about foreclosures sort of is like this. It's a very complicated thing. Let's help them out.

The thing I'd like to get rid of—I'll go back to the misbehavior. (Laughter.)

MR. : I always answer this question by saying the reason I became a researcher was because I didn't have to—(laughter) —

MS. QUINN: Yeah, yeah, but the reason you became a panelist is to—(laughter)—

MR. : Yeah. The only thing I can say is I think that the foreclosure crisis will end, and we will stop talking about this when the economy starts growing rapidly and house prices start rising. And that will happen. I always point to Massachusetts. I always have this graph of

Massachusetts house prices, and so I get a big laugh because I point to the peak, and that's when I bought my house, and then—but then the other thing you point to is that if you go back to the mid-1990s, if I had come to you in 1993 or 1994 and told you that six, seven years in the future not only would house prices have recovered a little, in fact, they would be above the peak of the previous cycle, I think you would have thought I was crazy. And—but that's in fact what happened.

And I think, you know, house prices are extremely volatile. I think one of the things we learned from this, or we should have learned, is that they're much more volatile than maybe they should be or than there's any logical explanation for why, but they are. And so the good news is that I think at some point house prices will recover. And so I think the key thing we have to do is really make sure that we remove as many impediments to a recovery in the housing market and a recovery of the economy as possible rather than—you know, I think we're doing a lot of what we can to remedy the problems from the past, but I think going forward, that's really what's going to pull us out.

MS. QUINN: Oh, and just if I may, the housing bust in Massachusetts in the early '90s and the recovery came during what was 10 years of a very, very positive economy. And this may be a different time.

MR. : Yes, although be careful, because remember that in 1993 and '94 we had a—we were having exactly the same discussions about jobless recovery. The—what you're remembering, that really vigorous recovery, didn't really start until 1996. So we had a period there of fairly weak job growth nationally, and there was this big debate about a job recovery, not dissimilar from what we're having now. It was—it was better, but it was still not great.

And so I think—you know, I agree. You know, you don't want to draw too much from one example. But I think it—you know, in the end, that's what pulled Massachusetts out. Although I think one thing to keep in mind was that in this problem of negative equity, it's a kind of chronic problem. I think the word "crisis"—you know, after six years it's hard to call something a crisis. And the negative equity thing is—sort of go with old age—it's not an acute illness to the economy; it's kind of a chronic problem.

And one of the things in Massachusetts, even long after house prices started rising rapidly, there were still a lot of people who had bought previous peak who were—who had negative equity and, you know, they were just one job loss or illness or divorce or something away from foreclosure. So even as late as 1997 you still saw fairly elevated foreclosure rates. So I anticipate foreclosures to remain high even once the economy starts to recover more vigorously.

MS. QUINN: Well, it's—any last questions? It's 11:30. If you have any final questions that occurred to you, please step up. Otherwise, I want to thank all of you for coming and for participating, and for our fabulous panel—(applause)—and for Lori's fabulous study, which is—(applause)—and thank you all very much.

MS. : Thank you.

MS. QUINN: Thank you.

(END)