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Paulson Urges Action on Housing Crisis

By MARTIN CRUTSINGER

WASHINGTON - Treasury Secretary Henry Paulson called Tuesday for an aggressive response to deal with an unfolding housing crisis that he said presents a significant risk to the economy.

In the administration's most detailed reaction to the steepest housing slump in 16 years, Paulson said that government and the financial industry should provide immediate help for homeowners trying to refinance current mortgages before they reset at much higher rates.

He also called for an overhaul of laws and regulations governing mortgage lending to halt abusive practices that contributed to the current crisis.

"Let me be clear, despite strong economic fundamentals, the housing decline is still unfolding and I view it as the most significant current risk to our economy," Paulson said in a speech delivered at Georgetown University's law school. "The longer housing prices remain stagnant or fall, the greater the penalty to our future economic growth."

In his most somber assessment of the crisis to date, Paulson said that the housing correction is "not ending as quickly" as it had appeared it would and that "it now looks like it will continue



U.S. Treasury Secretary Henry M. Paulson, Jr. responds to a question during the National Park Foundation Leadership Summit on Partnership and Philanthropy Monday, Oct. 15, 2007, in Austin, Texas. (AP Photo/Harry Cabluck)

to adversely impact our economy, our capital markets and many homeowners for some time yet."

Paulson spoke a day after officials from the nation's three biggest banks announced the creation of a fund with up to \$100 billion in resources to buy troubled assets such as mortgage-backed securities.

Treasury Department officials participated in the behind-the-scenes discussions that led to creation of the fund, but no government resources have been pledged to the effort.

Paulson said that the government must balance the need to help homeowners stay in their homes against the threat that government action can encourage investors to make risky decisions in the future.

"We must help as many able homeowners as possible stay in their homes," Paulson said. "Foreclosures are costly and painful for homeowners."

But Paulson also stated, "When investors are relieved of the cost of bad decisions, they are more likely to repeat their mistakes. I have no interest in bailing out lenders or property speculators."

Federal Reserve Chairman Ben Bernanke said Monday that the housing problem would be a "significant drag" on economic growth into next year and that it would take time for Wall Street to fully recover from a significant credit crunch.

In August, financial markets around the world were roiled by the worst credit crisis in nearly a decade as investors became worried about rising defaults in the mortgage market, causing credit to dry up in a number of markets including the market for commercial paper, short-term loans used extensively by businesses.

At the time, Paulson insisted that the country would be able to work through the problems without any lingering adverse effects. However, as the extent of the troubles in subprime mortgages has grown and the housing slump has deepened, the administration has worked to increase its efforts.

Democrats have also been critical of many of the administration's proposals so far, saying they will offer too little help in the face of the prospect that 2 million mortgages homeowners obtained with low introductory "teaser" rates will reset at much higher rates in the coming 18 months.

Paulson said in his speech that it was crucial for more mortgage companies to join in an

industrywide effort dubbed Hope Now to boost the number of homeowners who can be reached with credit counseling and help to refinance to mortgages they can afford.

In remarks aimed at lenders, Paulson said, "We have an immediate need to see more loan modifications and refinancing and other flexibility. For many families, this will be the only viable solution. The current process is not working well. This is not about finger-pointing; it is about putting an aggressive plan together and moving forward."

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