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Excerpts: 'This Is an Extraordinary Situation'

Paulson on Credit Crunch, Homeowner Woes, Reforms for Federal Housing Administration

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Below are edited excerpts of the discussion U.S. Treasury Secretary Henry Paulson Jr. had Tuesday with Wall Street Journal reporter Deborah Solomon. (See related article.)

On the broader credit crunch:

"For some time, I've been saying the markets are reassessing risk. The complexity of some of the products and the degree of global integration of the markets means this will continue to take a while. There will be volatility and unpleasant surprises. I continue to be focused primarily on the orderliness of the markets because I think the extent of repricing mitigates the inevitable drag on the economy."



Henry M. Paulson

On the potential problems ahead:

"We'll watch carefully mortgages that will be reset. The quality [of the 2008 resets] will be lower, when you think about it. Of the 2005 ones, roughly 10% of those end in default; the others refinance. The nature of the problem will be significantly bigger next year because 2006 [mortgages] had lower underwriting standards, no amortization, and no down payments."

On the need to address the resets on a systemic basis:

"We're never going to be able to process the number of workouts and modifications that are going to be necessary doing it just sort of one-off. I've talked to enough people now to know that there's no way that's going to work. And so we're pressing very hard, really pressing, I just can't emphasize it enough, for [mortgage] servicers to come out with very specific criteria for what it takes to do a workout, to do a modification You're going to see me very aggressive on this."

"I think most of the firms we've talked to agree with that ... this is just encouraging them, aggressively encouraging them, to move quicker."

On why Congress should pass various housing-related bills aimed at offering relief:


"This is not business as usual. This is an extraordinary situation."

"How many of the homeowners are going to be facing issues in advance? How many are going into default with no conversations? Are there people who are going into default who need criteria? This is very frustrating. I'm not trying to deal with politics. This is individual homeowners and capital markets and our economy."

On the administration's approach to helping homeowners:

"There's three aspects. The first is identifying those homeowners where there's apt to be a problem and doing

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everything to get them counseling and have them talk to someone. Secondly, [we need] to have as many of them as possible be able to stay in their homes. Thirdly, I'd like to measure our success and have some metrics because I think the objective is to have as many homeowners who can afford a home stay in a home."

On why Congress has been slow to act:

"I talk [with members of Congress] all the time, OK? And I think people, when I to talk to them, they're not saying, in most cases, we disagree with you... It seems to be harder to get action because there are other issues. There are higher priorities. And we all know what those issues are, but I just think this should be high priority"

On the administration's approach:

"What we've proposed has evolved. We didn't start off calling for standard criteria so we could have modifications on a large scale. But as we've learned more, as we see what's coming and as we understand we are evolving."

"I see this as being important to the individual homeowners and I start there but it's got a macroeconomic effect, it's got a neighborhood effect and it's clearly got a capital markets effect."

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