BARACK OBAMA'S PLAN TO RESTORE CONFIDENCE IN THE MARKETS, TACKLE THE HOUSING CRISIS AND HELP PROTECT FAMILIES FROM THE ECONOMIC SLOWDOWN

Last fall, Barack Obama went to Wall Street and said that our capital markets could not function without the confidence and trust of the public and that Wall Street could not succeed while the rest of America struggled. The news coming from Wall Street in recent weeks has confirmed our fears that the financial fallout from the mortgage crisis would spillover into the wider economy. Nationwide, millions of households are at risk of losing their homes. Amidst rising energy prices, falling home prices, and a growing credit crunch, consumer confidence in the economy has fallen to a five-year low. And the emergency sale of a significant investment bank makes clear that the mortgage crisis has devastated both Main Street and Wall Street.

Barack Obama will restore confidence in the markets, tackle the housing crisis and protect families from the economic slowdown by:

- Creating 21st century standards for transparency and oversight of the financial system in order to prevent future abuses and crises.
- Providing immediate relief to homeowners hit by the housing crisis.
- Enacting a second stimulus package to stabilize and strengthen the economy, provide aid to homeowners and states hardest-hit by the housing crisis, and extend and expand unemployment insurance.

I. MODERNIZE THE FINANCIAL REGULATORY SYSTEM

Free markets are the engine of American progress. But the government's role as umpire and steward is critical to the function of the free market. The current crisis reminds us that a lack of oversight and regulatory checks to stabilize financial markets hurts Wall Street and Main Street. Government has three important roles to play in overseeing our financial markets: (1) stabilizing macroeconomic and financial conditions for sustained growth; (2) promoting transparency and openness; and (3) ensuring fair competition in the marketplace.

Instead of finding the right level of government oversight in a vibrant free market, we've let the special interests set the agenda. Changes in the financial landscape, driven by technology and globalization, made the 1930's era Glass-Steagall Act – the New Deal era law that required that investment banking be kept separate from commercial banking – increasingly inefficient. While reform was desirable, the banking, insurance and securities industries spent over $300 million lobbying Congress to shape that reform to meet their own interests. In the two years before Glass-Steagall was repealed in 1999, financial service industries gave $58 million to congressional campaigns; $87 million to political parties; and spent $163 million lobbying Washington. But though the regulatory structure was outdated, the need for oversight was not. Unfortunately, in the rush to repeal the law to create immediate opportunities for certain Wall Street firms, little effort went into modernizing the government's supervision of the financial industry – to guard against the potential for conflicts of interest, to insist on transparency, or to ensure proper oversight of new and complex financial products or the dramatic rise of investment banks and non-bank financial institutions, like hedge funds and Structured Investment Vehicles. Nearly a decade later, our financial markets—and everyday Americans—are paying the price.

Barack Obama believes that it is time to reconsider how we oversee financial markets in this country. Much of our regulatory apparatus was invented in the 1930s — in a world where the financial system was centered on banks and easy to understand. Obama believes that our existing patchwork of federal and state regulation is not sufficient to provide the rules of the road in a 21st century economy. We need to update our regulatory oversight framework to prevent future crises. While the details of these changes should be developed only after adequate analysis and public debate, Obama believes that the following six principles are necessary for reform.

1. **Provide the Federal Reserve with basic supervisory authority over any financial institution to which it may make credit available as a lender of last resort.** The Federal Reserve does not exist to bail out financial institutions, but rather to ensure stability in our financial markets. For that reason, it is essential to make clear that while the government may step in during times of crisis to prevent instability, financial institutions must play by the rules. Any institution that has access to the sacred trust of the American government when everything else goes wrong — the ability to use the Federal Reserve as the lender of last resort — must be subject to prudential oversight to ensure it is not taking excessive risks with the American taxpayer's money. Barack Obama believes that we should not give access to the discount window or similar facilities as a favor to banks. It is entirely for the benefit of the American people and their interest in the safety and soundness of credit markets. The nature of such oversight should be commensurate with the degree and extent of contingent exposure for the Federal Reserve to specific institutions. At a minimum, it should include liquidity and capital requirements.

2. **Capital, liquidity and disclosure requirements should be developed and strengthened for all financial institutions.** Barack Obama believes that capital requirements should be reexamined and strengthened, especially with respect to complex financial instruments such as many of the mortgage-backed securities that lie at the heart of current problems. New standards for managing liquidity risk, which has been neglected in the past, must be developed and rigorously applied. And the events of the last year have also highlighted the need for more disclosure. Though transparency cannot rectify everything that has gone wrong, it is imperative that we enhance information flows to shareholders and counterparties of financial institutions in order to increase market discipline, as well as greater disclosure of off-balance sheet risks such as exposure to Structured Investment Vehicles. Finally, Obama believes we need to look into the issue of the rating agencies. This problem was illustrated in the subprime market crisis in which credit rating agencies strongly rated subprime mortgage securities even as there were significant indications of large numbers of foreclosures and a weakening housing market. Obama supports an immediate investigation into the ratings agencies and their relationships to securities' issuers, similar to the investigation the EU has recently announced.

3. **End our balkanized framework of overlapping and competing regulatory agencies.** Prior to the 1999 repeal of Glass-Steagall, financial institutions fell into easily delineated categories (commercial banks, insurance companies, investment banks, etc.) and were therefore regulated by specific entities (SEC, FDIC, CFTC, etc.). The large, complex institutions that dominate the financial landscape today no longer fit into discrete categories, especially ones that were created decades ago. The reality is that different institutions compete indirectly in multiple markets and our regulatory system should not pretend otherwise. Barack Obama believes that we need a more streamlined system of oversight – one that reflects 21st century finance markets and that is capable of identifying where risks actually reside in the system.

4. **Regulate financial institutions for what they do, rather than who they are.** Our current oversight structure is rooted in the legal status of financial firms – even if they are in the same business as other companies. Banks are regulated by the Federal Reserve, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation; thrifts by the Office of Thrift Supervision; investment banks by the Securities and Exchange Commission; and so on. This is true even when firms operate in the same business. Barack Obama believes that this fragmented structure is incapable of providing the oversight necessary to prevent bubbles and to curb abuses, and too often encourages growth in the sectors of the financial industry with the least oversight. The mortgage crisis is illustrative of this point. Non-bank mortgage brokers and companies, generally not regulated the way banks are, issued two-thirds of all subprime mortgages. Obama believes that regulation should identify, disclose, and oversee risky behaviors – regardless of what kind of financial institution engages in them.

5. **Crack down on trading activity that crosses the line to market manipulation.** Barack Obama believes that the Securities and Exchange Commission (SEC) should aggressively investigate reports of market manipulation. For example, there have been reports that some traders may have intentionally spread rumors that Bear Stearns was in financial distress while making market bets against the company. If true, this type of manipulation undermines the financial system and must be addressed.

6. **Identify systemic risks to the financial system, no matter where they arise.** The present crisis has shown us that at dire moments, we are often forced to deal with serious threats to the financial system that were not on the minds of regulators when they created our oversight system and are not properly monitored by existing agencies. Barack Obama believes that we should create a financial market oversight commission which would meet regularly and report to the president, the president's Financial Working Group and Congress on the state of our financial markets and the systemic risks that face them. They would specifically identify important issues to be addressed before they deteriorated enough to cause a crisis.

II. HELP HOMEOWNERS FACING FORECLOSURE & EASE THE CREDIT CRUNCH

The implosion of the subprime lending industry directly threatens over two million households nationwide with foreclosure, and is spreading devastating impacts to the economy as a whole. Over the past several years, while predatory lenders were driving low-income families to financial ruin, ten of the country's largest mortgage lenders were spending more than $217 million lobbying Washington to weaken oversight and regulation. In 2007 alone, the industry spent $32 million on lobbying expenses and campaign contributions and donations to block responsible reforms.

Create a New FHA Housing Security Program: One of the biggest problems associated with the crisis in the housing market is the decline in house values, which is putting people's mortgages underwater, meaning that their mortgage is worth more than their houses. Many people who find themselves in this situation simply walk away, worsening the foreclosure problem. At a time when costs are rising for energy, food, health care and education, Barack Obama believes we must ensure that the American dream of homeownership can continue. Obama strongly supports the efforts of Senate Banking Committee Chair Chris Dodd (D–CT) to create a new Federal Housing Administration (FHA) program that will provide meaningful incentives for lenders to buy or refinance existing mortgages and convert them into stable 30-year fixed mortgages. This plan will provide a federal guarantee for lenders to reduce the outstanding principal amount of loans that are currently unaffordable in order to enable new, affordable mortgages for homeowners. The new FHA program will address the growing problem that too many mortgage loans are underwater, giving homeowners little incentive to stay in the existing loan and encouraging foreclosure. This often leads to foreclosure proceedings that not only hurt families, but also ruins neighborhoods and lead to significant losses for lenders.

What the country needs is not a bailout, but a backstop. The Dodd plan would be targeted to those individuals who cannot reasonably refinance in today's market. Neither the lenders nor the borrowers will receive a windfall.

Call on Lenders to Write Down Loan Amounts on More Conventional Borrowers at Risk: The Bush Administration and major lenders have reacted to crises rather than planning ahead to try to prevent them. As house values continue to fall, now is the time to take steps to head off a substantial spreading of the crisis beyond just subprime loans. Millions of more conventional borrowers are now facing the prospect of having their mortgages underwater, too.

Federal Reserve Chairman Ben Bernanke started down this path, declaring that lenders need to start writing down the principal of mortgages. Barack Obama calls on lenders to take action as early as possible when borrowers are at risk of financial trouble or when property values drop precipitously so that principal can be reduced or other solutions can be found before a homeowner faces foreclosure. Obama's plan also calls for legislation that will clarify and ease the ability of servicers to act on behalf of the often diffuse investors who own pieces of the mortgage. Uncertainty over these tax and legal issues and the fears of lender lawsuits has prevented many beneficial workout offers.

Close the Bankruptcy Loophole for Mortgage Companies: While investors who own multiple homes and people with vacation homes can renegotiate those mortgages in bankruptcy, current Chapter 13 law prohibits bankruptcy judges from modifying the original terms of home mortgages for ordinary families—regardless of whether the loan was predatory or unfair or is otherwise unaffordable. Barack Obama will repeal this provision so that ordinary families can also get relief that bankruptcy laws were intended to provide. This change could prevent as many as 600,000 homeowners from being foreclosed upon.

Lower People's Interest Payments by Creating a New Mortgage Interest Tax Credit: Barack Obama will provide a greater number of Americans with the financial assistance they need to purchase or keep their own home. Many middle class Americans do not receive the existing mortgage interest tax deduction because they do not itemize their taxes. As a result, the benefits of this tax incentive are often greatest for wealthy families with the most expensive homes. Obama will ensure that middle-class Americans get the financial assistance they need to purchase or keep their own home by creating a 10 percent universal mortgage credit that gives tax relief to all Americans who have a home mortgage. This will, effectively, cut 10 percent off the interest rate paid by 10 million homeowners, most of whom earn under $50,000 per year. This tax cut will provide direct relief to many homeowners who are struggling to maintain their mortgage payments.

Provide an Additional $10 Billion of Mortgage Revenue Bond Authority: Mortgage Revenue Bonds (MRBs) are used to refinance subprime loans and provide mortgages for first time homebuyers. But these bonds are over-subscribed in virtually all states and are being rationed to respond to affordable housing needs. Barack Obama will provide $10 billion in additional MRBs to help families facing foreclosure refinance and to enable low- and moderate-income first-time homebuyers purchase a home. Approximately, 1.7 million subprime adjustable rate mortgages worth $367 billion are expected to reset during 2008 and 2009. According to the National Association of Home Builders, every new mortgage revenue bond home loan produces almost two full-time jobs, $75,000 in additional wages and salaries and $41,000 in new federal, state and local revenues.

Combat Mortgage Fraud and Predatory Subprime Loans: Barack Obama has been closely monitoring the subprime mortgage situation for years, and introduced comprehensive legislation nearly two years ago to fight mortgage fraud and protect consumers against abusive lending practices. Obama's STOP FRAUD Act provides the first federal definition of mortgage fraud, increases funding for federal and state law enforcement programs, creates new criminal penalties for mortgage professionals found guilty of fraud, and requires industry insiders to report suspicious activity. This bill also provides counseling to homeowners and tenants to avoid foreclosures. This bill also provides counseling to homeowners and tenants to avoid foreclosures and increases the ability of borrowers with risky mortgages to protect themselves in foreclosure proceedings.

Mandate Accurate and Easy to Understand Loan Disclosure: Today's subprime mortgage problem stems in large part from the lack of easy-to-understand information that borrowers receive from mortgage brokers. As president, Barack Obama will enact laws to ensure that all prospective homebuyers have access to accurate and complete information about their mortgage options. Obama will create a Homeowner Obligation Made Explicit (HOME) score, which will provide potential borrowers with a simplified, standardized borrower metric (similar to APR) for home mortgages. The HOME score will allow Americans to easily compare various mortgage products and understand the full cost of the loan. The HOME score would also help borrowers understand their long-term obligations and would be required to include mandatory taxes and insurance.

III. Enact a Second $30 Billion Stimulus Package to Address the Mortgage Crisis, Protect Vulnerable Families and Strengthen the Economy

Create a $10 Billion Foreclosure Prevention Fund to Help Americans Keep their Homes: Evidence reveals that the rise in mortgage delinquency and foreclosures is largely attributable to aggressive and all too often abusive lending practices by many in the mortgage industry. And in communities where there are many foreclosures, property values of innocent homeowners are often also negatively impacted, driving them toward foreclosure, too. Barack Obama has called for the immediate creation of a Foreclosure Prevention Fund to help people facing foreclosure stay in their homes and renegotiate with their lenders or sell their homes. The Fund will not help speculators, people who bought vacation homes or people who falsely represented their incomes. Given the downturn in the economy, Obama has called for immediate creation of this $10 billion fund as part of an economic stimulus package. The Fund will:

- Dramatically increase emergency pre-foreclosure counseling resources.
- Assist individuals who purchased homes that are simply too expensive for their income levels to sell their homes. The fund will help offset the costs of selling a home, including by helping low-income borrowers get additional time and support to pay back any losses from the sale of their home, and waiving certain state and local income taxes that result from an individual selling their home to avoid foreclosure.
- Partner with state governments, community organizations and loan providers to ensure fair loan modifications can be made in a timely manner that avoids the need for foreclosure or bankruptcy.

Provide $10 Billion in Relief for State and Local Governments Hardest-Hit by Housing Crisis to Prevent Cuts in Critical Services: Because of the housing crisis and the weakening economy, many state and local governments are facing significant revenue shortfalls. Already, 19 states have a projected budget shortfall for their next financial year and balanced budget requirements in most states will force them to cut programs or raise taxes in the face of the downturn. This will worsen America's economic slowdown and leave millions without a safety net. State and local governments provide important services to low and middle-income families, including services like health care, housing, and income assistance that are particularly necessary during a recession. In addition, as the economy slows, it is important that state and local governments not postpone major infrastructure spending since doing so would exacerbate the economic slowdown. Barack Obama believes that in the areas hardest-hit by the housing crisis we should provide immediate, temporary funding to state and local governments so that the decline in property values does not cause them to slash critical public services and cut vital infrastructure spending. Obama's plan will provide $10 billion in immediate relief to the states and localities hardest hit by the housing crisis.

Extend and Expand Unemployment Insurance: The last time America had a jump in the unemployment rate as large as the most recent one it indicated the start of a recession. But in many ways, our current situation is worse than when the 2001 recession began. The long-term unemployment rate – the share of workers having been unemployed for at least six months – is nearly twice as high now as it was then. Barack Obama believes we must extend and strengthen the Unemployment Insurance (UI) program to address the needs of the long-term unemployed, who currently make up nearly one-fifth of the unemployed and are often older workers who have lost their jobs in manufacturing or other industries and have a difficult time finding new employment. As job growth stagnates, the long-term unemployed face additional difficulties re-entering the job market. Providing these workers additional assistance in a time of economic distress is necessary to ensure consumer spending remains at an acceptable level and that they have a chance at restarting their careers. Expanding UI is one of the most effective ways to combat economic turmoil; every dollar invested in UI benefits results in $1.73 in economic output. Obama is calling for a temporary expansion of the UI program for those who have exhausted their current eligibility. Obama also believes that the extension of UI benefits should be coupled with an expansion of UI eligibility to more workers, including many part-time and non-traditional workers who are currently left out of the program.