More and More Economists Agree:
Reducing Principal is Key to Addressing the Housing Crisis

"There needs to be a recognition that many borrowers will never make the required payments on their underwater mortgages, and that the owners of these mortgages have already lost any meaningful chance of obtaining a full recovery of the outstanding principal. The sooner that this reality is recognized and addressed, the sooner a recovery can take hold. As such, an aggressive principal reduction program is necessary."

- *Neil Barofsky, former Special Inspector General for TARP (Oct. 5, 2011) (www.huffingtonpost.com/neil-barofsky/foreclosures-mortgage-crisis-_b_995922.html?page=3)*

"Most economists see principal reductions as central to preventing foreclosures. ... Perhaps the cost to taxpayers could be reduced by giving the government—or even private investors—some of the upside when house prices finally start climbing. One encouraging sign is that settlement talks between the government and the five biggest mortgage servicers (Ally Financial Inc., Bank of America Corp., Citigroup Inc., J.P. Morgan Chase & Co., and Wells Fargo & Co.) are reportedly coming around, at last, to principal reductions."

- *Alan Blinder, former Vice Chairman at the Federal Reserve (Oct. 20, 2011) (http://online.wsj.com/article/SB10001424052970204485304576640983793571772.html)*

"In this environment, principal reductions that restore some equity for the homeowner may be a relatively more effective means of avoiding delinquency and foreclosure. … [A]s I have noted, when the mortgage is 'under water,' a reduction in principal may increase the expected payoff by reducing the risk of default and foreclosure. … In my view, we could also reduce preventable foreclosures if investors acting in their own self interests were to permit servicers to write down the mortgage liabilities of borrowers."

- *Ben Bernanke, Federal Reserve Chairman (Mar. 4, 2008) (www.federalreserve.gov/newsevents/speech/bernanke20080304a.htm)*

"Surely there is a strong case for experimentation, with principal-reduction strategies at the local level. The GSEs should be required to drop their opposition to experimentation and move to a more constructive posture."

- *Lawrence Summers, former Treasury Secretary under President Clinton and former Economic Adviser under President Obama (Oct. 24, 2011) (www.washingtonpost.com/opinions/how-to-stabilize-the-housing-market/2011/10/23/gIQA7lveAM_story_1.html)*

"A weaker than anticipated housing market poses a serious threat to the economic expansion—probably the most serious on the current horizon. It may thus be worthwhile for policymakers to consider steps to ensure housing remains on track. ... A more dramatic and costly policy step, but one with the best odds of ending the housing crash quickly and definitively, would have the government facilitate loan modifications with substantial principal writedowns."

- *Mark Zandi, Chief Economist, Moody's Analytics (May 25, 2011) (www.economy.com/mark-zandi/documents/To-Shore-Up-the-Recovery-Help-Housing.pdf)*

“To halt the fall in house prices, the government should reduce mortgage principal when it exceeds 110 percent of the home value.”

- *Martin S. Feldstein, former Chairman of the Council of Economic Advisers under President Reagan (Oct. 12, 2011) (www.nytimes.com/2011/10/13/opinion/how-to-stop-the-drop-in-home-values.html)*

“There are two different housing market problems, one due to excess supply the other due to insufficient demand. … Given the rather different circumstances of the two housing markets, it makes sense to write down mortgages differently based on local default conditions.”

- *Hal Varian, Chief Economist, Google (Oct. 27, 2010) (www.economist.com/economics/by-invitation/guest-contributions/tailor_write-downs_local_market_conditions)*

“They’d be bankrupt if not for the bailouts. For their part, bondholders need to understand that we’re not earning our way out of this mess and should eat losses now before they get nothing.”

- *Barry Ritholtz, CEO and Director, Equity Research Fusion IQ (Oct. 3, 2011) (www.huffingtonpost.com/2011/10/03/debt-relief-haircut-economists_n_991909.html)*

“Reducing principal on under water mortgages may be the most—if not only—effective way of deleveraging household balance sheets in a world where house price inflation in the future is unlikely to be imminent or large. …Writing down principal would be far better use of government stimulus than writing off losses on GSE portfolios due to rising losses from foreclosures and delinquencies.”

- *Viral Archarya, Academic Advisor to the Federal Reserve Banks of New York, Philadelphia and Cleveland (Oct. 22, 2010) (www.economist.com/economics/by-invitation/guest-contributions/yes_its_best_route_household_deleveraging)*

“We advocate a legal reform that would allow homeowners to reduce principal while giving mortgage holders an equity interest. Such a plan would give homeowners an incentive to keep or resell their homes, thus reducing the market value loss of homes while protecting the effective value of creditors’ interests.”

- *Eric A. Posner, former Department of Justice Attorney, and Luigi Zingales, National Bureau of Economic Research and Center for Economic Policy Research (Dec. 4, 2009) (http://faculty.chicagobooth.edu/luigi.zingales/research/papers/a_loan_modification_approach_aler.pdf)*