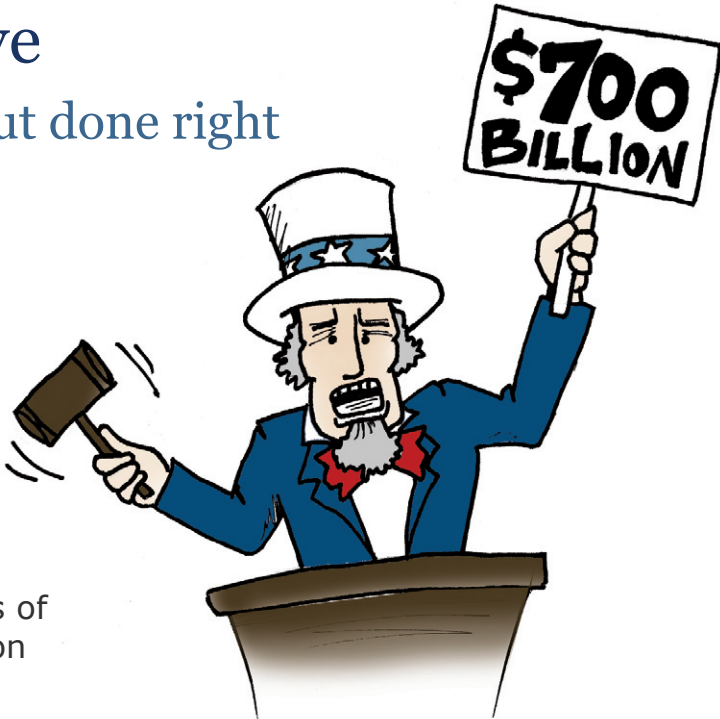


# Fair and Effective

## The Wall Street bailout done right

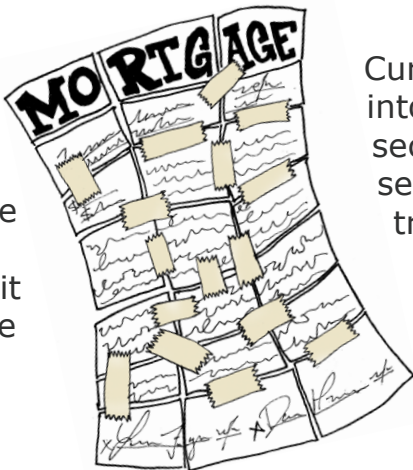
### Step 1

Treasury offers to run a series of auctions with up to \$700 billion to invest in mortgages.

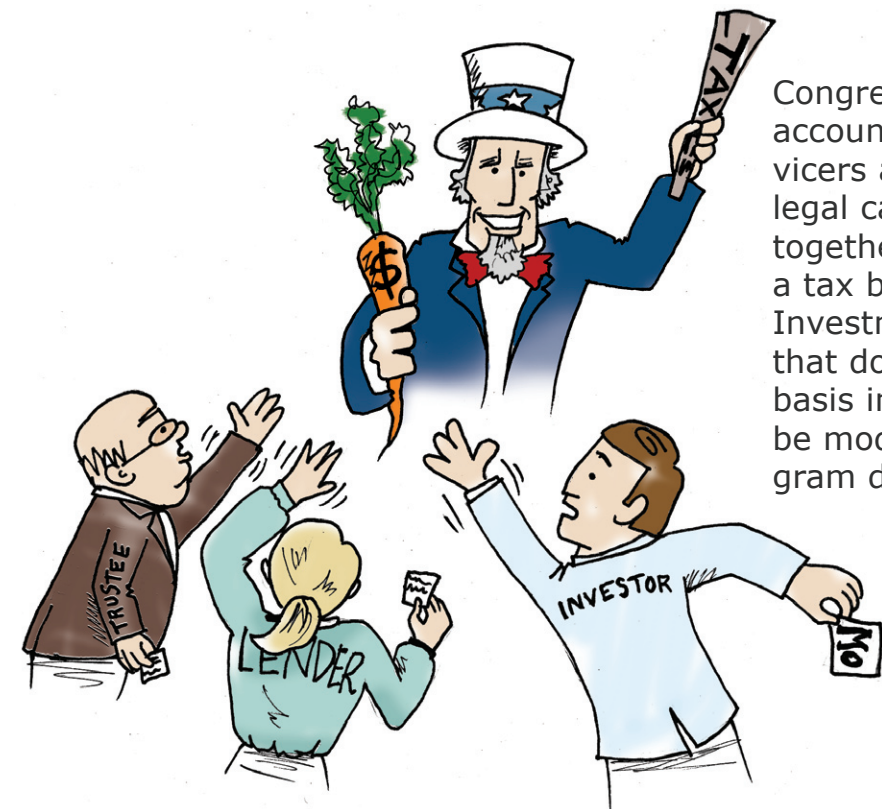


### Step 2

To tender to the auction, mortgage lenders, investors and mortgage servicers and trustees must submit whole mortgages or pools of whole mortgages.



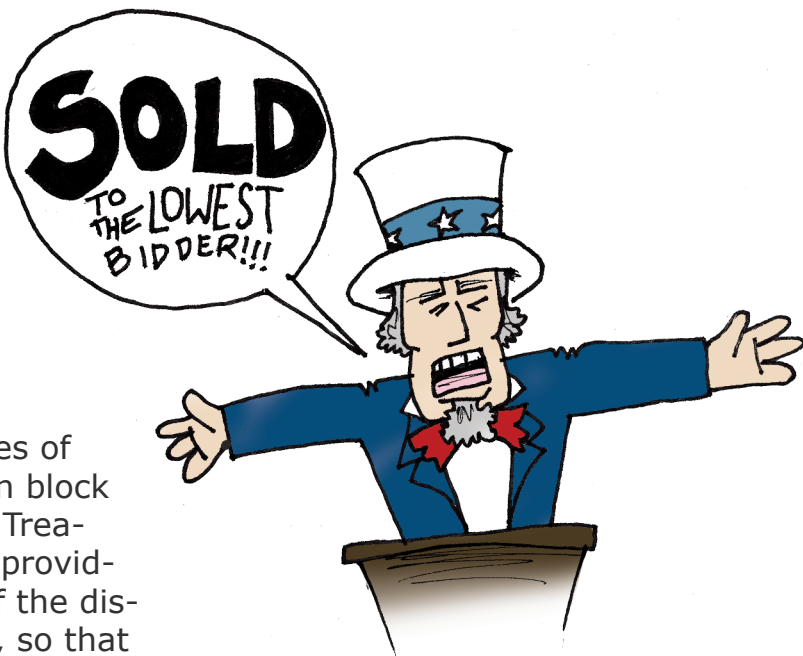
Currently, most mortgages are divided into pieces and sold as mortgage-backed securities to investors worldwide. These securities are held by trusts, which distribute mortgage interest and principal payments to investors.



Congress would need to revise the tax and accounting rules governing trusts so that servicers and trustees have strong incentives and legal capacity to gather pieces of mortgages together to tender in the auctions. In particular, a tax break known as the Real Estate Mortgage Investment Conduit would be denied to trusts that do not permit participation on a voluntary basis in the auctions, and accounting rules would be modified so that asset sales under the program do not trigger a change in trust status.

### Step 3

In its most straightforward form, Treasury runs a reverse auction, which means it takes the lowest bid on all submitted assets, with strict rules on transparency regarding asset quality and pricing. The mortgage holders accept a steep discount, but clean up their books of bad mortgage assets.



Some homeowners also have home equity lines of credit. These so-called second-lien lenders can block the sale of these mortgages. Under this plan, Treasury would "cram down" second-lien holders, providing a partial payment as a fixed percentage of the discount taken at auction on the first mortgages, so that everyone takes "a haircut" in the auction and Treasury can clear the way to restructure troubled loans.

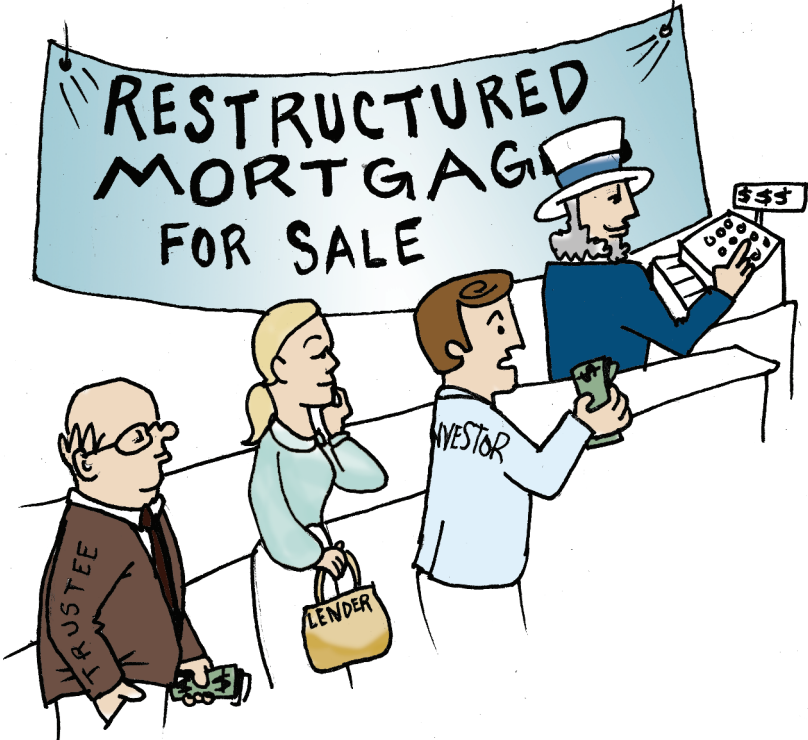
### Step 4

Once Treasury purchases these mortgages it restructures eligible loans where necessary to keep families in their homes. Only homeowners in their primary residences would be eligible, and there would be strict rules to ensure shared responsibility with the government by homeowners whose loans are restructured.



By restructuring individual mortgages in communities nationwide, housing prices will stabilize. The U.S. housing market will then be able to rebound.

### Step 5



Treasury can provide a credit enhancement on the restructured mortgages and resell them into the market, helping further to stabilize the U.S. housing market and allow the U.S. economy and global financial system to get back on its feet.