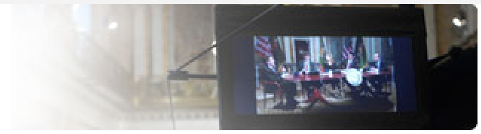

Remarks by Assistant Secretary Mary Miller at the Women in Housing Finance Annual Dinner

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As Prepared for Delivery

Thank you very much for inviting me this evening. Reforming housing finance is a key priority for the Obama Administration, and it is great to be meeting with a group that focuses specifically on this area. I'm glad to have the opportunity to talk about the Administration's views and hear some of your thoughts on how we can best move forward.

I have been at U.S. Treasury since February 2010 and am responsible for two broad areas:

- First, I oversee all Federal borrowing, which includes managing the United States' national debt. As you know, there's just a bit of discussion in Washington right now on that issue.
- Second, I am responsible for advising Secretary Geithner on the effect of federal policy and regulation on financial markets. There are a host of policies that can affect financial markets, but there are a few primary policy areas I am currently focused on. These include the administration's plan for reform of the housing finance system and on the implementation of a number of areas of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

So let me begin with an update on the current state of the U.S. housing market. I will then discuss some of the Administration's priorities for reform, including our Report to Congress on Reforming America's Housing Finance Market released in February and the actions we are taking now. Finally, I look forward to taking some of your questions.

It's impossible to talk about housing finance reform without talking about where we came from and the present state of the housing market.

In 2008, the exceptionally weak housing market and financial crisis required extraordinary action. Following the decision to place Fannie Mae and Freddie Mac in conservatorship in September 2008, the government implemented a comprehensive set of programs and policies to help support the recovery and help responsible homeowners avoid foreclosure.

Since taking office in January 2009, the Obama Administration has worked both to stabilize and strengthen the overall economy and the housing market. Working with Congress, we have expanded tax credits for first time homebuyers, supported state and local housing agencies, bolstered neighborhood stabilization and community development programs, and implemented mortgage modification and refinancing initiatives. More than 4.5 million modification arrangements were started between April 2009 and April 2011, which include more than 1.5 million trial modification starts through the Administration's Home Affordable Modification Program (HAMP) and an aggregate reduction of more than $6 billion in payments for homeowners. The Administration has also continued to provide necessary capital support to Fannie Mae and Freddie Mac.

While these policies were instrumental in averting an even more severe crisis, the housing market remains fragile. Some of the headwinds we face are exemplified by taking a look at the current housing market.

- To date, housing prices have dropped 33 percent from the peak in July 2006 based on the Case-Shiller index.
- New housing starts are running at an average annual rate of less than 600,000 units. This is about 100,000 units higher than the low in the first quarter of 2009, but only one third the annual rate of housing starts prior to 2005 and before the peak in home prices.
- There are currently approximately 3.5 million existing homes on the market and another 3.8 million units that are vacant and held off the market, part of the large, so-called "shadow inventory."
- Additionally, although the foreclosure rate fell in 2010, it remains extraordinarily high. There are currently more than 2 million homes in the foreclosure process, with over 1.9 million completed foreclosures since early 2009.
- And finally, one out of four homeowners with mortgages is underwater, and total negative equity is estimated to be roughly three quarters of a trillion dollars. Homeowners with negative equity are more likely to default on their loans and it is hard for these borrowers to sell their homes if they need to move or want to refinance into a lower mortgage rate.

Other factors that continue to weigh on the housing market include household concerns about the outlook for employment and income, slow household formation, tighter lending standards, and uncertainty about future real estate values.

But beyond these numbers and factors, we must remember and keep in perspective the fact that the state of our housing market has real human impacts on families and communities. Setting appropriate policy must keep that in mind.

Given the ongoing fragility of the housing market, we are continuing to evaluate and strengthen our efforts to support the process of recovery. Treasury has created new programs to better address current challenges, like the $7.6 billion Hardest Hit Fund, which allows State Housing Finance Agencies in our nation's hardest hit housing markets to design locally targeted foreclosure prevention programs, and made improvements to its HAMP and "FHA Refi" programs. Additionally, in the past few weeks, Treasury issued a program directive for the largest mortgage servicers participating in the Making Home Affordable Program that requires them to assign homeowners applying for assistance a single point of contact, to improve servicer accountability and efficiency in interacting with borrowers and to reduce borrower frustration. FHFA has also helped in these efforts and has directed Fannie Mae and Freddie Mac to align their servicing guidelines to encourage earlier servicer engagement and reward servicers that perform well and penalize those that do not.

Treasury has also continued to provide necessary capital support Fannie Mae and Freddie Mac since they were placed in conservatorship in the fall of 2008. This support helps ensure Americans have continued access to mortgage credit and prevents further economic fallout. But the current government presence in the market – with over 90 percent of new mortgages backed by the government – is neither sustainable nor desirable for the long term.

This is why, in February, the Administration laid out our plan to reform the housing finance market going forward. The plan was built on an extensive outreach process that included citizens, consumer advocates, economists, investors, market researchers, lenders, and servicers. The engagement and support we received was essential to ensuring that we had the best ideas on the table and that we were working with a deep understanding of the facts and realities of the present system. I want to especially thank everyone who has contributed to this process, including those here tonight.

The plan we put forward is designed to create a housing finance system in which the government's role is focused on oversight and consumer protection, alignment of the right incentives, targeted assistance for low- and moderate- income homeowners and renters, and carefully designed support for market stability and crisis response.

Central to our plan is the idea that private capital should be at the center of any reformed housing market. The essential components of housing finance are fundamentally private sector activities – the private sector should be the primary source of mortgage credit and bear the burden for losses.

Our plan outlines several near-term steps that we can focus on over the next several years and presents three potential options for the longer-term structure of the housing finance system.

We outline three levers we can use in the near-term to wind down Fannie and Freddie and start to shrink the government's footprint in housing finance: (1) gradually increasing pricing at Fannie Mae and Freddie Mac until they are pricing as if they were held to the same capital requirements as other private institutions; (2) increasing the amount of private capital ahead of taxpayers by increasing the amount of risk taken by the private sector ahead of GSE guarantees; and (3) allowing the temporary loan limit increases in place today to expire in October 2011. We also support the continued wind-down of Fannie's and Freddie's investment portfolios.

FHFA and the Federal Housing Administration have established a working group to consider the relationship of changes to pricing and other standards at Fannie Mae, Freddie Mac, and FHA, with the objective of reducing their market share over time and helping the private market compete on a level playing field.

We also recognize the necessary balance that exists between moving swiftly to reduce the government's footprint in the market and ensuring that any actions do not disrupt the still fragile housing market. A smooth transition requires the government to reduce its role at a pace that is measured and gradual, and that it does so in a well-telegraphed manner. While moving to a more stable and healthy housing finance market is essential, this Administration will ensure it is done in a way that continues to support the availability of credit for American families and supports the recovery of the fragile housing market.

Treasury is also taking steps to gradually wind down its agency-guaranteed mortgage backed securities portfolio acquired during the financial crisis. At its peak, the Treasury held close to $200 billion MBS. Today, the MBS market has improved and we are able to sell these securities back into the private market with a potential gain for the taxpayers. We began selling off this portfolio in March and are pleased that the market has responded quite well.

While taking these steps to reduce the government's footprint in housing finance are important to implement, they are not enough to bring back private capital to the mortgage market on their own. We must restore confidence in the housing market and the housing finance system for borrowers, lenders and investors by fixing the substantial fundamental flaws in the mortgage market.

We are working to implement a number of reforms to ensure that this happens. As just a few examples, significant work is underway on risk retention standards, servicing reforms and bank capital standards under Basel III.

First, we are coordinating an interagency effort to develop risk retention requirements required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The statute generally requires securitizers to retain credit risk of not less than five percent, although the statute also includes an exemption for certain Qualified Residential Mortgages. The underlying goal of these provisions is to change market practices that led to poor quality lending while also protecting the benefits of securitization. It is important that we reform the flaws in the previous system so that the private market can once again provide capital for homeowners to take out a mortgage. The period for public comment on the NPR put forward in March has just been extended until August 1, and I encourage all stakeholders to participate in the process.

Second, the Administration is working with regulators to set national servicing standards and improve industry incentives. This is critically important so we address the chronic problems in the servicing and foreclosure process. There are a number of initiatives underway, including the important work FHFA and FHA is doing in their review of the servicer compensation structure.

And third, we are putting in place stronger capital standards, consistent with Basel III, so that banks, mortgage guarantors and other financial institutions hold more capital – including against higher risk mortgages that have a greater risk of default.

A reformed system of housing finance will help ensure that there is more equity in the system at every level to increase safety and soundness and to provide a greater ability to withstand volatility in home prices. The mortgages underwritten in the future system will be more sustainable than those originated prior to the market collapse. This will be good for the entire housing finance system and should result in increased overall system stability.

These are only a few of the many reforms we are working on and we hope to have these implemented as soon as practical.

As we reduce the government's role in the broader housing market and implement reforms to restore confidence, we must also more effectively target the government's support for access to sustainable mortgage credit and to affordable rental housing.

Another challenge our report identifies is the imbalance between homeowners and renters. While we believe Americans should be 'well housed', that doesn't mean our goal should be for all Americans to be homeowners. Instead, our approach should provide support to credit-worthy but underserved families who want to own their own home, as well as provide affordable options for the one-third of Americans who rent.

Beyond these immediate steps we know that we will need to make some longer-term decisions about what form the housing finance market should take. In our report, we laid out three options where the private sector plays the dominant role in providing mortgage credit and bears the burden for losses. This approach should help frame the important debate we need to have as a country as we consider each of the option's merits – each has its own benefits and drawbacks and each will require different transitions plans from the market we have today. Regardless of what we choose, any responsible reform effort that addresses the flaws in the pre-crisis housing market will make credit less easily available than before the crisis. Any such changes should occur at a measured pace that allows borrowers to adjust to the new market, that preserves widespread access to affordable mortgages for creditworthy borrowers, including lower-income Americans, and that supports, rather than threatens, the nation's economic recovery.

As I already mentioned, reform will take time. We are working with Congress and hope to pass legislation in the next two years. In the meantime, we will continue to work with FHFA to implement reforms consistent with our recommendations made in our report to Congress and FHFA's stated objectives as conservator, which include steps to wind down the activities of the GSEs. But part of a successful transition strategy is also considering what operations, systems, and human capital that reside in the GSEs today can ultimately be used in a way that best benefits taxpayers and the broader housing market. We need to recognize the taxpayers' significant investment in the GSEs and how best to leverage that for the long-term strength of the housing finance system.

As we implement the reforms in the report, we will work to develop a long-term solution that achieves an appropriate balance across the key objectives of access to mortgage credit, appropriate incentives for investment in housing, taxpayer protection, and financial and economic stability.

Thank you for your time and thanks again for having me here to speak tonight. I look forward to hearing your questions.