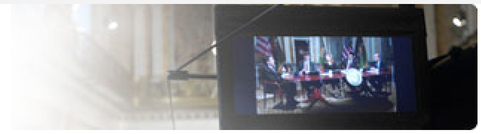
U.S. DEPARTMENT OF THE TREASURY

Press Center



Remarks of Counselor to the Secretary of the Treasury for Housing Finance Policy Michael Stegman at the 2013 American Securitization Forum (ASF)

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LAS VEGAS, NEVADA - Today, as we look around and take stock of a number of encouraging developments in the nation's housing market, it's easy to forget where we were only a few short years ago.

Treasury and the Administration had to take bold and unprecedented actions to stabilize the housing finance system and stem the dramatic fall in home prices in the midst of the worst financial crisis since the Great Depression.

Indeed, the situation necessitated an around-the-clock, all-hands-on-deck effort, which often required making tough decisions that weren't politically popular. But these actions were nonetheless essential in preventing even deeper damage to the housing market – along with the investments of countless investors and the savings of millions of American families.

We worked with Congress to implement tax credits for first-time homebuyers. We bolstered state and local housing agencies with borrowing assistance so they could continue to lend. We supported neighborhood stabilization, community development and housing counseling programs.

We introduced mortgage modification and refinancing initiatives that not only helped families stay in their homes, but also helped transform a mortgage servicing industry that was woefully unprepared for a crisis of this scale.

Treasury and the Federal Reserve committed substantial financial support to help keep mortgage markets liquid by purchasing agency mortgage-backed securities.

Given the scale of the damage, we knew there was no easy fix. At the time, many questioned whether federal intervention could be successful, or was even necessary. But it has now become clear that our actions helped prevent a further free-fall in home prices and were critical in averting an even more severe, protracted housing crisis.

We know that many of these actions were not popular. But overall, our actions gave markets the confidence they needed to continue providing mortgage funding through the depths of the crisis, which helped stabilize financial markets, improve the risk profiles of many legacy mortgage portfolios, and support homeowners across the country.

Since the darkest days of the crisis, we've made tremendous progress. Fewer borrowers are falling behind on their mortgage payments or entering foreclosure. Distressed properties and shadow inventories are also declining.

A majority of housing market indicators have reversed their declines. Housing starts and home prices continue to recover. Just this morning, the newly released S&P/Case-Shiller home price index for the 20 largest cities shows that home prices in November increased 5.5 percent compared with a year ago – the largest year-over-year increase in more than six years and the sixth straight month of year-over-year gains.

Housing has contributed positively to GDP growth in each of the last six quarters, and forecasters expect that it will continue to be a positive force in growth, as new residential construction continues to pick up.

Yet, despite this encouraging news, Treasury and the Administration have not lost sight of the fact that major challenges remain. Although we've achieved significant progress, many homeowners continue to struggle – particularly in some of the hardest-hit communities and regions.

We have three key items on our agenda that aim to alleviate the pain of these hardest-hit communities and regions.

First, we must continue helping as many responsible borrowers as possible refinance into affordable mortgages by taking advantage of today's historically low interest rates.

So far, more than 15 million borrowers have refinanced, and since its introduction, HARP has helped more than 1.8 million underwater homeowners secure a lower-cost mortgage – putting more than $27 billion a year in real savings into the hands of American families and into our economy.

However, as you know, HARP is limited only to GSE loans, and with interest rates at their lowest levels in 50 years, we can do more.

That is why the President put forth a plan to open up refinancing to millions of families, helping responsible homeowners seeking relief from high monthly payments save thousands of dollars a year on their mortgages and those struggling under the weight of negative equity.

We must expand streamline refinancing to families whose loans are not guaranteed by the government.

Many of these loans are held in non-agency trusts, so legislation that gives these high-interest borrowers in PLS trusts the ability to refinance into lower-cost loans could be especially impactful.

A substantial portion of these loans – approximately 30 percent – are higher-risk, interest-only or balloon loans that could pose a greater risk of default.

However, we will also consider non-legislative means at our disposal to help responsible non-GSE homeowners access these low rates. To be the most effective, as well as address investor concerns, the legislative route would be preferable to using existing Making Home Affordable program authority.

Legislation would facilitate a refinance, whereas under our existing authority, Treasury could only modify the most deeply underwater loans and pay investors for some amount of forgone interest.

Second, we continue to take action on several items that address the plight of communities that are still suffering from the aftermath of the housing crisis.

Our Hardest Hit Funds program, which provides financial support to the 18 hardest hit states and the District of Columbia to develop locally tailored programs to assist struggling homeowners, is gaining traction, and we will continue working with states to ensure that their programs reach those in the greatest need.

Additionally, we will look for ways to help consumers repair their credit and regain their footing in the housing market and support neighborhood stabilization.

Third, and perhaps most importantly for the long-term future of the housing finance market, we seek to enhance the conditions for private capital to serve a greater role in taking on mortgage credit risk.

We believe a housing finance system that facilitates a paramount role for private capital – subject to strong standards for oversight and consumer protection – is one that will best serve the needs of homeowners and taxpayers alike.

As many of you know, the United States government, through the GSEs, FHA, VA and USDA, still supports over 80 percent of the nation's newly originated mortgages, a state of affairs that is simply unsustainable and undesirable over the long-term.

Responsibly shrinking the government's footprint in housing finance over time is important to protecting taxpayer interests. However, we must balance our policy goal of reducing the government's footprint against the need to preserve access to mortgage credit for creditworthy borrowers.

While lending was too fast and too loose in the run-up to the financial crisis, we're now in a situation where many families that can effectively take on monthly mortgage obligations are being denied access to credit.

In this regard, the Federal Reserve has a similar outlook. Chairman Bernanke noted that tighter lending standards are probably preventing creditworthy borrowers from buying homes, and this could be slowing the revival in housing and slowing the economic recovery.

While no single metric can pinpoint how far the pendulum has swung the other way, I simply note that the average credit score of the post-2008 books of business for Fannie Mae and Freddie Mac range between 750 and 760, about 40 points higher than it was before the crisis. Similarly, FHA's average credit score for 2012 borrowers is around 700, about 70 points higher than it was before the crisis.

Moreover, many creditworthy borrowers who are being denied mortgages today had their credit scores damaged because a job loss or reduced wages from the financial crisis caused them to miss an auto or credit card payment.

These potential borrowers still meet GSE and FHA underwriting requirements, but are being underserved by many lenders. Barring families who suffered from economic events beyond their control the ability to obtain a mortgage, even after their lives and livelihoods have substantially recovered neither serves their interests, or your interests as investors. It also does nothing to promote economic growth or financial stability.

Of course, we also recognize that a continuing impediment to expanding credit availability is lingering investor uncertainty, and working to address that issue continues to be an important part of our agenda.

As you know, the Consumer Financial Protection Bureau, along with other regulators, have released a collection of mortgage-related rules in the past several weeks that covers different parts of the mortgage origination chain.

These include requiring lenders to verify a borrower's ability to repay, setting best practice servicing standards, increasing transparency for appraisals, setting standards around originator compensation practices, establishing escrow requirements, and mandating the provision of disclosures, such as those relating to counseling, to high-cost loan borrowers.

These standards will help homeowners obtain mortgages, with straightforward terms and obligations that both lenders and borrowers can clearly identify, providing for a more sustainable mortgage market going forward.

While investors, securitizers, originators, and servicers may not agree with every aspect of each of these new rules, their release helps provide clarity to market participants who may have been waiting for greater certainty before putting their capital back to work.

With the release of these final regulations, the rules of the road going forward are beginning to take shape. Market participants can once again go about the business of taking on mortgage credit risk and serving a much broader swath of the market than has been the case since the onset of the financial crisis.

Looking at a pending rule, Treasury has been hard at work coordinating the asset-backed securitization risk retention rule-writing process, with a keen focus on the qualified residential mortgage. The overarching goal of risk retention is to align all of the disparate interests along the chain of securitization, so that securitizers and originators have 'skin in the game' and are better encouraged to diligence the underlying assets.

While Treasury is the coordinator for this effort, not a rule-writer, we understand the importance of defining QRM so as not to unnecessarily increase the cost or decrease the availability of mortgage credit.

By providing greater clarity for mortgage participants, more credit can be made accessible to American families, and the government's footprint in the housing finance market can begin to recede. But we understand that these measures alone will not suffice.

So, in thinking about how to broaden the role of private capital going forward, what else needs to be done?

First, we must make more progress on representation and warranty reform. We know that rep and warrant risk is leaving lenders in a position where they fear having a bad loan put back to them if there exists an underwriting flaw or error, no matter how trivial or immaterial. Thus, lenders are only extending mortgages to the most pristine, minimal-risk borrowers, leaving other creditworthy borrowers without sufficient levels of credit.

Significantly, in this regard, on January 1st of this year, FHFA put in place a new rep and warrant framework for the GSEs, with further guidance to come.

But rep and warranty reform should also extend to the non-GSE sector, which will require the non-agency investor and securitizer community coming together with a clear voice and taking decisive actions to clarify rep and warranty procedures and responsibilities within the private label securities sector.

Ultimately, we should be looking for best practice, industry-wide standards here so that differential buy-back risks across channels do not distort the pricing and flow of mortgage credit.

Even those who question the wisdom of an industry-wide standard should agree that a uniform definition of materiality, third party arbitration, an agreed upon number of continuous payments to provide lender relief, and uniform timelines for review and claims resolution would provide more clarity, consistency and certainty to market participants.

Second, we need more certainty around first lien priority so that first lien investors are better protected, and the modification process is fair and transparent. We support instituting contracts and enforcement mechanisms that protect first lien priority and fully writing-down second liens prior to a first-lien modification. However, this is an area that may require working with banking regulators to achieve our desired outcome.

Third, we need to improve the quality of and access to mortgage data. Empowering investors with data so that they can gain a more complete understanding of mortgage risk reduces uncertainty as investment choices are made.

The solution may include the development of a national mortgage registry that would cover the roughly 48 million first-lien and 13 million second-lien mortgages in the country, which would help address issues relating to data accuracy, lien matching, recordation, assignments, documentation, and title transfers that arose in the run-up to the crisis.

Of course, any such registry would need to protect borrowers' privacy while still allowing stakeholders the opportunity to gain a more complete picture of the nation's mortgage finance landscape.

Finally, let me turn to the topic of long-term housing finance reform, an issue of interest to all of us in this room and beyond.

No matter what path we take to reform, Treasury and the Administration have core, fundamental, requirements that must be met. We intend not only to ensure that private capital be the primary source of mortgage credit and bear the primary burden for credit losses – which it must; and that taxpayers are strongly protected – which they will be.

We also seek a system which provides American families access to sustainable mortgage credit, which must include long-term fixed rate mortgages; and which would ensure that credit remains available under all conditions, even during times of severe market stress.

Any plan for housing finance reform must also meet the needs of our nation's growing rental population, and must ensure sustainable mortgage credit be available in all communities, and must serve borrowers across the income spectrum.

Comprehensive housing finance reform is not just about achieving any one of these priorities – it is about developing a system that achieves all of these priorities.

In the course of the past year, I have had countless meetings with virtually every interest represented in the housing finance reform debate, including many of you in this room. And I have been on the receiving end of some pretty harsh commentary on both the substance and pace of our housing activities.

Of the many organizations with whom I have met or whose housing finance reform proposals I have pored over, few address all of the above priorities, and most have a narrower scope.

I mention this not to be critical, but to emphasize that the real challenge of housing finance reform is creating a system that achieves all of our aims, and not just some of them.

In the course of many of these meetings, Treasury is often implored to make particular decisions on certain issues; we are urged to make the kinds of hard choices that those doing the urging won't make themselves.

And when I ask those sitting across the table why they haven't taken a position on an issue of great interest to us, more often than not the response is that while they acknowledge its importance, it is not an issue in which their organization is invested;

Or that their organizations represent a mix of players in the mortgage chain and so they are unable to develop a consensus position.

I have two responses: first, welcome to the club: balancing interests while achieving broad interconnected purposes is very hard work. And second, we need your help and leadership if we are to make progress on reform, including a responsible and stable transition plan.

A more unified voice within the investor and securitization community could help accelerate our collective pace down the path of comprehensive housing finance reform.

In closing, let me once again return to my key theme of encouraging private capital to take on more mortgage credit risk.

We understand the necessity of reducing the government role in the mortgage market responsibly over time as a necessary condition for crowding in more private capital to take mortgage credit risk. But we don't think that it is sufficient to achieve our mutual goal.

In my view, without addressing the reasons why the non-agency market remains largely moribund, shrinking the government's footprint could raise housing finance costs and further restrict the flow of mortgage credit to creditworthy borrowers.

On many of these issues, such as reforming rep and warranty frameworks and clarifying terms and responsibilities in pooling and servicing agreements and other contracts, you – private market participants – are in a strong position to suggest approaches to resolve them, as you see on a day-to-day basis how these parts of the securitization chain interact.

And, so as we emerge from one of the greatest financial crises in our nation's history, and reflect on the last four years with an eye towards the future, one thing we know for certain is that we're all in this together.

We need your engagement and participation, and all the thoughts and ideas that may spring forth, to help us restructure and rebuild a viable, sustainable housing finance system.

We know that no one alone has all the answers, and we owe it to the American people to keep our doors open to your advice and feedback. Treasury and the Administration are eager for your input.

Thank you.

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