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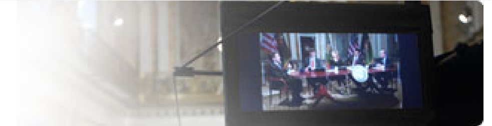

Remarks of Counselor Dr. Michael Stegman before the Women in Housing Finance

12/4/2014

As prepared for delivery

WASHINGTON - I've really been looking forward to this opportunity ever since Joanna Shapiro extended the invitation to me when we first met at a Bipartisan Policy Center conference on housing finance reform in September. The housing finance landscape is rapidly evolving, so we have lots to catch up on.

But as important as updating you on the Administration's progress and policy priorities, I have a more personal reason for wanting to be with you today. And that reason is to pay tribute to and publicly express my gratitude to three women – each a giant in housing and finance – who individually and collectively shaped the contours of my career and gave me the motivation, the passion, and most importantly, the opportunity to contribute to the public interest through government service.

And so with your permission, I propose dividing my time into three parts. I will begin with brief personal reflections, move on to a high-level overview of our key housing priorities, and then open the floor for questions.

In an unusual twist of fate, my first opportunity in government came as a result of my consistent inability to win government research competitions. As a young faculty member in City Planning at UNC in the 1970's, in response to Requests for Proposals, I had prepared evaluation designs to assess the effectiveness of a series of affordable multifamily housing demonstrations that were being piloted by HUD's Office of Innovative Finance. In each case, my designs were rated at the top of the submissions, but my execution plans were found to be seriously lacking. When brought to HUD headquarters as part of "best and final" presentations and asked how I would execute on, say, a 20-city demonstration evaluation, I would say something like "…well, I can work in the summers with a couple of graduate students…" at which point I was summarily declared "non-responsive," losing out to major, contract research shops.

After three such disappointing experiences, the head of the Office of Innovative Finance, Sybil Phillips, called and simply said to me, without so much as a "hello," – and I quote because I remember it as if it was yesterday – "When are you going to stop banging your head against the wall? Either stop submitting proposals or come to DC as my resident consultant on evaluation." Sybil was then the highest-ranking woman career employee at HUD. I took her up on her offer and from 1976-1978 spent two days per week working with her and her staff to create and evaluate affordable housing programs in post-riot urban America. Sybil showed me that if trusted and empowered by political appointees, career civil servants can have transformative effects on the lives of poor people and their communities.

During that time, I had the opportunity to meet the incoming Carter Administration HUD leadership team — and while I am not sure that many you here today will identify this extraordinary woman with HUD, the Assistant Secretary for Policy Development and Research at that time was Donna Shalala. Where Sybil gave me my first taste of working with career staff at HUD, Donna gave me my first opportunity to serve in a political position at the intersection of policy and research when she named me one of her three deputies.

An extraordinary mentor, Donna elevated the role of data and evidence in HUD's policy process. She created the Department's first visiting scholars program to create a richer intellectual environment within the agency, while consulting academics and other outside

experts to help build HUD’s policy research agenda. Without the exposure and experience Donna offered me, I never would have been in position to serve in the same position that she held at HUD during the Clinton Administration.

After retiring from UNC and serving as Director of Housing and Policy at the McArthur Foundation, I received a call from a former student of mine, Mary Miller, who, following a distinguished career at a leading financial services firm and serving as Assistant Secretary for Financial Markets at Treasury, had become Under Secretary of Domestic Finance, the first woman to serve in this important leadership position.

Mary navigated critical domestic finance issues during her tenure including implementation of the Dodd-Frank Act and management of the public debt, but her enduring legacy at Treasury will be in how she built the Office of Domestic Finance division, recruiting and promoting women throughout the ranks and making the organization an attractive place to work for top female talent.

Thanks for your indulgence. Now, let me briefly discuss three phases of our ongoing housing work at Treasury. The first is our continuing effort to help families facing hardships in the aftermath of the financial crisis. The second is our ongoing commitment to working with Congress to develop comprehensive housing finance reform legislation consistent with the President’s principles. And the third is our broader initiative to improve access to mortgages for credit-qualified Americans.

While the housing market – like the broader economy – has greatly improved since the depths of the mortgage crisis, there is still work to do. Fewer borrowers are underwater, falling behind on their mortgage payments or entering foreclosure. But that is of little comfort to those families that are experiencing financial hardship and struggling to keep their homes. As you know, in response to this need, Treasury developed and continues to actively fund and support a suite of programs to help distressed borrowers.

Since 2009 when the Home Affordable Mortgage Program (HAMP) was established, struggling homeowners have been offered a combination of lowered interest rates and modified loan terms, reducing monthly payments to affordable levels. In addition, homeowners in HAMP who remained current following their modification have been eligible to earn up to $5,000 over the first five years of their modification, which has been applied in repayment of their outstanding principal balance.

Today, I am pleased to report that Treasury has adopted three important enhancements to our existing Making Home Affordable (MHA) programs to better assist homeowners that still need help. These changes will help motivate homeowners in the MHA programs to continue making their mortgage payments on time and re-build equity in their homes, as well as strengthen the safety net for homeowners facing continuing financial hardships.

First, under the revised guidelines announced today, all homeowners in HAMP will now be eligible to earn an incentive of $5,000 in the sixth year of their modification to be applied to their outstanding principal balance. Many homeowners will also be offered an opportunity to re-amortize and use the reduced mortgage balance to lower their monthly payment, saving the median HAMP borrower approximately $50 per month and helping to offset a portion of any payment increase due to the interest rate step-up that some homeowners will experience.

Second, we are enhancing the options for those borrowers who do not qualify for or who cannot sustain a HAMP Tier 1 modification. Borrowers who receive a HAMP Tier 2 modification receive a low fixed rate for the life of the loan, and the announced enhancements will lower this interest rate by 50 basis points, giving borrowers an even lower fixed rate for the life of the loan. They will also be eligible for the $5,000 pay-for-performance incentive if they remain in good standing at the end of the sixth year of their modification.

And third, the amount of relocation assistance provided under the Home Affordable Foreclosure Alternatives, or HAFA, program will increase to $10,000, aiding homeowners who need to transition to more affordable living situations through a short sale or deed-in-lieu of foreclosure.

Collectively, these changes will help not only the borrowers who face hardships, but also the communities that they live in recover from the lingering effects of the financial crisis by reducing foreclosures. And while Treasury continues to support and improve these programs, we remain committed to work just as hard with Congress toward putting in place a durable housing finance system that can help prevent the same bubble-and-bust cycles that caused these hardships from occurring again.

On this topic, let me be clear: comprehensive housing finance reform remains the last piece of unfinished business of broader financial reform. And until Congress passes legislation President Obama can sign into law, many mortgage credit decisions that should be made by private firms in a well-regulated, competitive marketplace will continue to be made by government agencies.

September marked the sixth anniversary of Fannie Mae and Freddie Mac entering conservatorship. As I have said before, an enduring conservatorship is unsustainable and undesirable for everyone. It serves neither creditworthy consumers, many of whom are ready to own a home but cannot obtain a loan, nor taxpayers, who remain on the hook in the event of future housing downturns. We owe the American people better.

The critical flaws in the legacy system that allowed private shareholders to reap unlimited profits while leaving taxpayers shouldering enormous losses cannot be fixed by a regulator or conservator. They require congressional action. This last point cannot be overstated, so let me repeat: The only way to responsibly end the conservatorship is through legislation that puts in place a sustainable housing finance system that protects taxpayers and brings stability and certainty back to the mortgage market.

Over the past two years, we have worked very hard to find a bipartisan path to comprehensive housing finance reform consistent with the President's principles, and while we have not yet reached the finish line, we have made substantial progress that should not be forgotten. Among other points of broad consensus, these include:

- Winding down of Fannie Mae and Freddie Mac;
- Preserving the 30-year fixed-rate mortgage and a liquid TBA market;
- A central role for private capital in taking first-loss mortgage credit risk;
- The extension of an explicit and actuarially-priced government catastrophic guarantee on qualified mortgage-backed securities;
- The enhancement of secondary market liquidity through a single securitization platform and security;
- The separation of the system's securitization infrastructure from private credit risk-taking firms;
- The establishment of a countercyclical role for government, and;
- A mechanism to ensure broad and affordable access to the system.

This bipartisan agreement was embodied in the thoughtful legislation from Senate Banking Committee Chairman Johnson and Ranking Member Crapo, along with Senators Warner, Corker, and other Committee members, that was voted out of Committee. This is real progress; and it demonstrates that the Johnson-Crapo majority did not forge its consensus by merely picking off low-hanging fruit. Resolving many of the issues required principled compromise and the maintenance of good will and open lines of communication among members on both sides of the aisle. But there is obviously more work to be done in the next Congress, and that work must continue.

And so I repeat: this Administration stands ready to continue work towards finding a legislative pathway to housing finance reform. Congress should move to find consensus and build on the bipartisan efforts we have seen in the Senate.

And finally, coming out of the financial crisis, mortgage credit remains unusually tight relative to historical norms. For a variety of reasons, large numbers of credit-qualified Americans are unable to get a mortgage to buy a home. The good news is that the frozen lending channels are beginning to thaw due to a lot of hard work by stakeholders and by financial and housing regulators, including FHFA and HUD.

Release of the final risk retention rule governing securitizations of assets including mortgage loans should help instill greater investor confidence in the credit risk of the collateral being securitized and sold. Clarification of GSE and FHA policies regarding their respective put-back and indemnification practices provides mortgage originators and other stakeholders with increased certainty that is vital to conducting their operations, and should help reduce the extent to which they use self-imposed overlays to constrain credit availability beyond the stated requirements for a GSE- or FHA-backed mortgage.

But rather than celebrate this slow but steady progress that should responsibly normalize access to credit for many qualified consumers who have been shut out of the market, there is a growing chorus of naysayers who see this important work as a harbinger of a return to the bad old days of “anything goes” mortgage lending. Nothing could be further from the truth.

This Administration would not support any policies or market practices that would undermine lender liability for poor or fraudulent underwriting practices, ignore ability-to-repay requirements, or allow minimum down payment requirements on mortgages eligible for sale to the GSEs to come down without taking into account compensating factors that would offset any incremental credit risk. We will strike a responsible balance between access to credit, sustainable homeownership, and preventing the mistakes of the past.

Tight mortgage credit is not only holding creditworthy borrowers back from buying homes; it is impeding the economy’s return to its full potential. While incremental progress can and will be made on access to credit, the best way to create a more fair and accessible mortgage system is through comprehensive housing finance reform legislation.

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