Remarks by Secretary of the Treasury Janet L. Yellen at the Open Session of the Meeting of the Financial Stability Oversight Council

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As Prepared for Delivery

Today, the Financial Stability Oversight Council will vote on publishing a report on nonbank mortgage servicing. The Council has highlighted in its annual reports the risks associated with the growing share of mortgages serviced by nonbank mortgage companies. It has also promoted collaboration on this issue among regulators and federal agencies through its Nonbank Mortgage Servicing Task Force. Now, the Council is leveraging its Analytic Framework, published this past November, to undertake a comprehensive analysis of risks on a sector-wide basis and make concrete recommendations to address them.

Nonbank mortgage companies play a critical function in the mortgage market, helping ensure accurate and timely payments to investors and appropriate loss-mitigation options for borrowers. And over the past decade, this sector has only become more important. While no single nonbank mortgage servicer owned the servicing rights on more than 5 percent of outstanding mortgage balances as of the end of 2023, nonbanks collectively originate and service the majority of U.S. residential mortgages. In 2022, they originated approximately two-thirds of mortgages and serviced the majority of mortgage balances. This is a substantial increase from 2008, when they originated 39 percent and serviced 4 percent. The share of outstanding mortgages guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae has also increased. Together, these shifts mean that exposures to the nonbank mortgage sector have grown significantly.

As the report outlines, some of these nonbank mortgage companies have certain strengths, from greater efficiency due to adoption of technology to acting as key mortgage originators and servicers for groups that have historically been underserved.

But nonbank mortgage companies also present unique risks. The report finds that their specialized business model means they are especially susceptible to macroeconomic fluctuations in the housing market, such as changes in housing prices, interest rates, and

delinquency rates. They are more reliant than depository institutions on the value of mortgage servicing rights, which may lose value in the event of a downturn in the housing market. And they are also vulnerable because they can have high leverage, short-term funding, and operational risks.

These vulnerabilities matter. If a nonbank mortgage company fails, it may be difficult for it to find funding to continue critical servicing operations, such as making required servicing advances or providing adequate loss mitigation for distressed borrowers. Suspending services can in turn harm borrowers and other stakeholders. Even transferring the portfolio of a distressed servicer is a resource-intensive and time-consuming process, and disorderly servicing transfers can cause additional harm to borrowers. And if a new servicer cannot be found, the federal government may be left to assume the servicing obligations itself. All of these outcomes could disrupt economic activity and the provision of financial services.

Because the risk profiles of nonbank mortgage companies are similar, stresses in the mortgage market can affect multiple nonbank mortgage companies simultaneously and can also spread throughout the sector. And sufficiently large and widespread disruption in the sector could lead to a temporary restriction of mortgage credit. This would make credit more expensive and difficult to obtain, particularly for borrowers who have been historically underserved by the mortgage market.

Put simply, the vulnerabilities of nonbank mortgage companies can amplify shocks in the mortgage market and undermine financial stability, and the Council has now laid this out in detail for the first time.

This analysis also points to recommendations to address identified vulnerabilities. As the report finds, current state-based requirements and limited federal authorities mean risks have not been fully addressed. We need further action to promote safe and sound operations, address liquidity risks, and promote continuity of servicing operations when a servicer cannot perform its critical functions.

The Council encourages state regulators to strengthen prudential standards if they have not already done so and to require resolution and recovery planning by large nonbank mortgage servicers to enhance sector resilience.

The Council also makes recommendations for Congressional action. Congress should consider legislation to authorize and protect the sharing of confidential information, which would facilitate coordination among Council member agencies, state regulators, and Ginnie Mae.

Congress should consider providing FHFA and Ginnie Mae with additional authorities to better manage nonbank mortgage company counterparty risk and for Ginnie Mae to expand its Pass-Through Assistance Program into a more effective liquidity backstop. And to facilitate continuity of servicing, the Council encourages Congress to establish a fund financed by the industry to provide liquidity to failing nonbank mortgage servicers to enable their critical servicing operations to continue until servicing obligations can be transferred in an orderly fashion.

Moving these recommendations forward is crucial to protecting borrowers and preventing disruptions to economic activity.

With that, I commend the Council for this important and timely work. And I will now turn to Sandra Lee, Treasury's Deputy Assistant Secretary for the Council.

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