Keynote Address

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Good evening. It is a pleasure to be part of this conference. I would like to thank Dennis Lockhart and the staff at the Federal Reserve Bank of Atlanta for inviting me here to be part of this important gathering.

My comments today are my own views, not necessarily those of the FHFA.

I will divide my comments into two broad categories, each having to do with building something new in response to the shortcomings of previous structures.

I would like to speak first about the Federal Housing Finance Agency, or FHFA. While I have spoken frequently about building for the future, I seldom talk about the internal building we have been doing at FHFA, so let me start there.

I would then like to turn to some of the steps that FHFA has taken to address certain failings in the mortgage market that contributed to the country's recent difficulties in housing finance. This is part of building a stronger, more stable, and more efficient housing finance system for the future. I have always believed that regulators can do more than just regulate individual firms, they can help financial markets to function more efficiently and effectively. Simply put, regulators can play a useful role in helping financial markets to work better.

Building a New Agency

On July 30, 2008, President Bush signed the Housing and Economic Recovery Act, which created FHFA by combining the old Office of Federal Housing Enterprise Oversight with the Federal Housing Finance Board plus some functions and staff from the Department of Housing and Urban Development. So, this new agency wasn't made from whole cloth, it was one of those rare examples of a merger of federal agencies.

Creation of FHFA had been contemplated for many years. Indeed, way back in 1993 when I worked at the then General Accounting Office, I was project manager on a GAO report to Congress that recommended merging OFHEO and the Finance Board. In the intervening years, others called for this or similar action, as well as a significant upgrading of the regulatory authorities over Fannie Mae and Freddie Mac. While the legislation eventually arrived in 2008, it was too late to address the financial problems that Fannie Mae and Freddie Mac were facing. Less than six weeks after FHFA came into being, it placed Fannie Mae and Freddie Mac into conservatorships.

While FHFA had to figure out how to establish and oversee the conservatorships, it also had to establish itself as a new agency with new authorities and responsibilities. Of course, we weren't just dealing with conservatorships, there was the entire financial crisis emerging around us.

Under the guidance of then Director Jim Lockhart and with a lot of hard work, we completed the formalities of transferring employees into the new agency in less than 90 days even though the

legislation allowed a full year. At its beginning, FHFA had about 380 people and a first-year budget of $121 million. We realized these resources were inadequate to the task at hand.

Our challenge was not just resources, it was organizational. By combining agencies, we had certain leadership positions for which we had two executives, one from OFHEO and one from the Finance Board, but the new agency needed a single person in charge of each area. Each agency had a different approach to internal operations such as accounting and managing the IT infrastructure. We also had to figure out what resources conservatorship would require and how to distinguish conservatorship activities from supervisory activities. The uncertainty as to the duration and outcome of the conservatorships and the uncertainty in the marketplace made operational and organizational planning quite difficult.

As FHFA's priorities focused on foreclosure prevention, problems in the servicing arena, and ultimately creating a long-term strategic plan for the conservatorships, we had to evolve organizationally and grow to carry out these varied responsibilities. At the same time, we have been mindful that legislation could end or alter certain of our functions, or indeed transform the entire agency into some other entity, so we have tried to guard against building too large a permanent infrastructure.

Fast forwarding to fiscal year 2014, FHFA's budget is $200 million and it provides for 614 staff. This still makes FHFA the smallest of the federal financial regulators, notwithstanding our oversight of some $6 trillion on the balance sheets of Fannie Mae, Freddie Mac, and the 12 Federal Home Loan Banks. We have sought to be efficient and targeted in how we carry out our responsibilities. And we have tried very hard to enhance the skillset of our workforce by hiring experienced examiners, financial analysts, economists, lawyers and so on who have added great depth to our team. I have been gratified by the interest of so many people who have come to FHFA. These applicants would frequently talk of their desire to be part of helping the nation through such a difficult period and they wanted to be part of building something positive for the future. It should remind all of us that there are many people still responding to the call to ask what they can do for our country, not what the country can do for them.

To provide a little more color on how we have developed as an agency, let me describe a bit how we are structured. Congress stipulated in law that we have a division focused on supervising Fannie Mae and Freddie Mac, a separate division for supervising the Federal Home Loan Banks, and a third division to oversee housing and mission responsibilities for all of these entities. We have each of these divisions, as required. That is simple enough, but it had the potential to produce separate supervisory frameworks for our regulated entities and it did not address certain critical functions, such as conservatorship.

I believe the combination of OFHEO and the Finance Board created a great opportunity to broaden the perspective of the smaller, more narrowly focused predecessor agencies. Congress asked FHFA to be responsible for overseeing the functioning of a large part of the housing finance system – the secondary market and wholesale funding that provide the liquidity necessary to support most of this $10 trillion market. We had to expand our focus from a narrow

set of entities to thinking more broadly about the health and efficiency of the housing finance system.

We pursued this objective on two fronts – safety and soundness supervision and housing policy.

With regard to supervision, we needed to build an FHFA supervision program to replace the separate, and somewhat disparate, programs of our predecessor agencies. We did this in part by creating what is now called the Division of Supervision Policy and Support, which establishes the agency's supervision standards and policies, conducts risk analysis research and monitoring, provides offsite support for examination activities, coordinates governance of the supervision function, and trains our supervisory employees.

I would like to offer just one example that helps illustrate how we used this particular division to strengthen FHFA relative to its smaller predecessors.

Unlike the banking regulators, neither OFHEO nor the Finance Board had an examiner training and commissioning program. Such programs provide multi-year training and skill development so that examiners learn their craft and learn the supervisory standards and approaches applied by their agency. Neither OFHEO nor the Finance Board had created such an infrastructure, perhaps because of the necessary resource commitment relative to their size. It was very important to me that FHFA establish a supervision training and commissioning program to ensure the quality and the consistency of our examiners and examination practices. It was imperative that we draw on best practices from other regulatory agencies and set forth clearly the examination standards and policies we would follow.

Like most things, setting this goal was easier than achieving it, but in 2013 FHFA launched an examiner certification program. The Housing Finance Examiner Commission Program combines coursework and on-the-job training to prepare examiners to conduct safety and soundness examinations at any of the entities the FHFA regulates. The program includes technical training on risks related to mortgage finance and practical application of examination techniques. Successful completion of the multi-year program culminates with the candidate receiving the Housing Finance Examiner Commission.

Our training efforts do not stop there. Experienced examiners are afforded technical training opportunities through various in-house forums, including classroom training and informal training sessions. And we are developing continuing education training and testing to be required of all supervision staff on FHFA statutes, regulations, and policies.

In 2013, FHFA also completed and published the FHFA Examination Manual. The Manual comprises an overview of the examination process and 25 modules that provide examination instructions, standards, and work programs organized by risk category or line of business or activity. The commissioning program trains our workforce to be able to carry out the requirements of the Exam Manual.

This investment in standards and human capital is essential to the current and future success of FHFA.

With regard to housing policy, FHFA has evolved its structure to meet the changing and growing demands to respond to the housing crisis, repair the weaknesses that contributed to the crisis, and prepare the foundation for a new and improved future system.

The Division of Housing Mission and Goals has developed into a multi-function unit with responsibilities ranging from the development of primary and secondary market policies and standards, to offsite financial analysis of the GSEs that produces our regular financial reports such as the foreclosure prevention report, to publishing the FHFA house price index.

While FHFA has been in the conservatorship business for virtually its entire existence, our structure and staffing in this area has also evolved. Today, the Division of Conservatorship manages FHFA's day-to-day interactions as conservator with Fannie Mae and Freddie Mac and coordinates the activities at FHFA and Fannie Mae and Freddie Mac pertaining to the Strategic Plan for Enterprise Conservatorships. It, along with the Division of Housing Mission and Goals, has contributed directly to the market-building steps I will describe in a moment.

All of this structure and staffing, and the associated policies, procedures, and standards, did not develop overnight. It is the result of a lot of hard work by many people at FHFA to build it amidst the economic and policy uncertainty facing FHFA, the companies we regulate, and the housing market in general. And it represents the sort of enhancements and synergies I believe Congress sought in creating FHFA to replace its predecessors.

(Re)Building a Housing Finance System

I would like now to talk about a different kind of building; that is building, or rebuilding, the secondary mortgage market.

In considering the debacle in housing finance and what to do about it, at FHFA we spent time thinking about how the market itself had failed. We asked what we could do, in the process of managing the conservatorships, to focus our response in a way that would help rebuild the market. This goal was not institution-focused but rather market focused.

For the remainder of my remarks, I would like to describe a few examples of where we have been working, and are continuing to work, to rebuild the housing finance system so that it may be able to operate as a more liquid, competitive, and efficient marketplace in the future.

One of the first places we started was with data. There is nothing particularly headline-worthy, glitzy, or compelling about data. In a structural sense, it is sort of like talking about a house's foundation when people want to talk about its landscaping.

A related issue we had to deal with involved differences in reporting loan origination data to Fannie Mae as compared with reporting it to Freddie Mac. Mortgage sellers faced challenges

with different reporting requirements and different data definitions between Fannie and Freddie. This made loan origination more costly than if there were a single data standard. For example, to report that the property was a brick house required one code for Fannie and a different code for Freddie. Not only does that approach lead to an increased likelihood of errors in the data reporting, it serves as a barrier to entry.

A similar challenge existed regarding appraisals and appraisal data.

At this point, I expect many of you are starting to think about dinner. I told you this wasn't the sexy stuff. Yet it is essential to get this right if you want to have efficient and effective and competitive private markets ready to evaluate, price, and bear mortgage credit risk. And we wanted to help rebuild the market to do just that. Standardized data was an essential step in building the market's foundation.

So, in May of 2010 FHFA announced the start of what we called the Uniform Mortgage Data Program. The program was actually an umbrella for separate projects covering data submissions for loan originations, appraisals, and loan servicing. Our goal was to improve the consistency and quality of this data, in addition to improving Fannie and Freddie's risk management. We also sought to establish technology requirements so that data would be reported using industry-standard systems for electronic data reporting. At the time of the announcement, we said this would be a long-term, joint effort to create improved and uniform data standards and collection processes. We pledged that Fannie Mae and Freddie Mac would work with industry participants to develop the uniform standards.

Under the program, data submitted to Fannie Mae and Freddie Mac on loans they purchase now includes more complete and consistent data on:

- loan characteristics;
- borrower information;
- the property securing the loans; and,
- the identity of the parties creating the transaction.

We saw this program as increasing efficiency for lenders while enabling Freddie and Fannie to manage risk more effectively. Common data standards provide uniformity for appraisers, mortgage lenders and servicers and other information providers in their data submissions to the secondary market.

FHFA, Freddie Mac, Fannie Mae, and market participants have been hard at work on this initiative since 2010. Some aspects of it are already in place in the market today. Other aspects remain under development. Here is a quick rundown of where we stand:

The Uniform Appraisal Dataset (UAD) defines the required data on an appraisal and standardizes the data definitions and responses for a key subset of fields on the appraisal form. The Uniform Collateral Data Portal® (UCDP®) is the technology application that established a single portal for the electronic submission of appraisal data. Mortgage lenders and their agents

(such as appraisal management companies) use the portal to deliver in electronic form the standardized appraisal data prior to loan delivery. So we now have operating a single industry standard for appraisal data and a single industry standard for its electronic reporting.

The Uniform Loan Delivery Dataset defines a set of common data elements that Fannie Mae and Freddie Mac expect to receive from loan originators. Rather than being proprietary in their definition and in their delivery, we are now using industry standards that may be used as well for non-Fannie Mae and Freddie Mac loans. Several iterations of this dataset have already been introduced to the market. Just last month, it was supplemented with a Uniform Closing dataset that sets forth data elements and definitions for reporting of data required to complete the Consumer Financial Protection Bureau's (CFPB) new closing disclosure forms.

We have been engaged in a similar effort to create a new Uniform Residential Loan Application (URLA). This work is being done in conjunction with the Federal Housing Administration, Veterans Administration, and Rural Development. When the new form is complete, all of the data fields will be consistently defined, enabling widespread use of standard industry data formatting to collect critical borrower information.

Finally, FHFA, Fannie Mae, and Freddie Mac have embarked on the Servicing Data and Technology Initiative to examine standardizing mortgage servicing data based on industry feedback on the gaps and inadequacies that exist in terms of servicing data and technology. As with the other data initiatives, this will set forth a common set of data elements, with common definitions and common electronic reporting requirements for mortgage sellers and servicers.

I am pleased with the collective effort of everyone at FHFA, Freddie Mac, Fannie Mae, and all the industry representatives and groups that have helped to bring about this improved standardization.

Rather than writing more rules for the market, we are fixing a problem that keeps the market from being as efficient and competitive as it might be. Over time, it will also result in lower operational costs for market participants, and hence for home buyers. That's what I mean about working on the foundation. It took time, and we have a ways to go, but the investment is paying off.

I will touch on a few more examples, but in less detail.

The unprecedented wave of mortgage delinquencies overwhelmed servicers' conventional methods of working with borrowers. The result for servicers and borrowers alike might simply be characterized as chaotic.

In response, in April 2011 FHFA announced its Servicing Alignment Initiative in which it directed Freddie and Fannie to align their guidelines for servicing delinquent mortgages they own or guarantee. The alignment was designed to help servicers do a better job of resolving delinquencies in a more consistent and expeditious manner, to keep people in their homes

whenever possible and to minimize losses to the companies and to taxpayers. The initiative also involved consultations with other regulators and with state attorneys general.

The initiative improved mortgage servicing and the improvements went beyond the world of Freddie and Fannie loans. In fact, the Servicing Alignment Initiative was largely adopted in the 49 state attorneys general settlements with the major banks and then adopted into the CFPB's mortgage servicing rule. By bringing in key stakeholders and treating this as a problem to be solved for the benefit of the market, we were able to greatly improve the accuracy, timeliness, and effectiveness of default servicing practices, which improved our collective ability to help troubled borrowers stay in their homes.

The final example I want to mention is one that is further from the finish line but no less important to re-establishing a competitive and vibrant private mortgage securitization marketplace. This work will also enhance the market for Fannie and Freddie mortgage-backed securities and serve as a foundation for mortgage securitization when the conservatorships are past. That initiative is the contractual and disclosure framework, which is related to our work on the Common Securitization Platform.

Investors discovered there was much they did not know, or could not trust, about the mortgages in private-label securities (PLS). And in the Fannie Mae-Freddie Mac mortgage-backed securities market, investors for years had been purchasing securities with little-to-no loan-level data on the underlying mortgages. They had felt they didn't need it – after all, the mortgages were backed by Fannie and Freddie, and if they failed, many people assumed the taxpayer would be forced to step in. Regrettably, this is exactly what happened.

So, we committed to undertake a basic reform: improve the consistency and quality of loan level data on mortgages in Fannie and Freddie securities and establish a disclosure regime throughout the life of the securities that would give investors much greater knowledge of the underlying loans.

We also analyzed key differences in the Enterprises' securities structures, standards, and contracts. Our work to-date has allowed us to identify opportunities to establish common securitization standards for Fannie and Freddie securities in the near-term. Ultimately, these standards may form the basis for mortgage securitization standards in a post-Fannie and Freddie world and for private-label securitizations. Thus, the work may hold valuable benefits for the broader mortgage market going forward.

Conclusion

The past five years have been a busy time for FHFA, a time in which we have done much building for the future. I am grateful for this opportunity to review some of that work.

I would like to leave you with two thoughts: financial regulators have more to do than write and enforce rules. They are themselves workplaces with their own environments and internal challenges. And rule writing and examinations and enforcement, while critically important, are

not the only ways in which regulatory agencies can fulfill their safety and soundness responsibilities. After all, the fundamental public policy purpose in federal financial regulation is to help financial markets work better – that is, more safely, efficiently, effectively, and fairly for all market participants, and to mitigate the damage from failures, which are going to happen.

Over the past several years, FHFA has been working on improvements to help the secondary mortgage market work better by creating a collaborative environment in which market standards may emerge that improve consistency and transparency. In turn, we expect this will create a more inviting environment for private markets to return and, once in place, operate with less risk for borrowers and the economy, than they did in the past.

Thank you.