

Post-Crisis Mortgage Regulation in the U.S. -- An Evolving Process

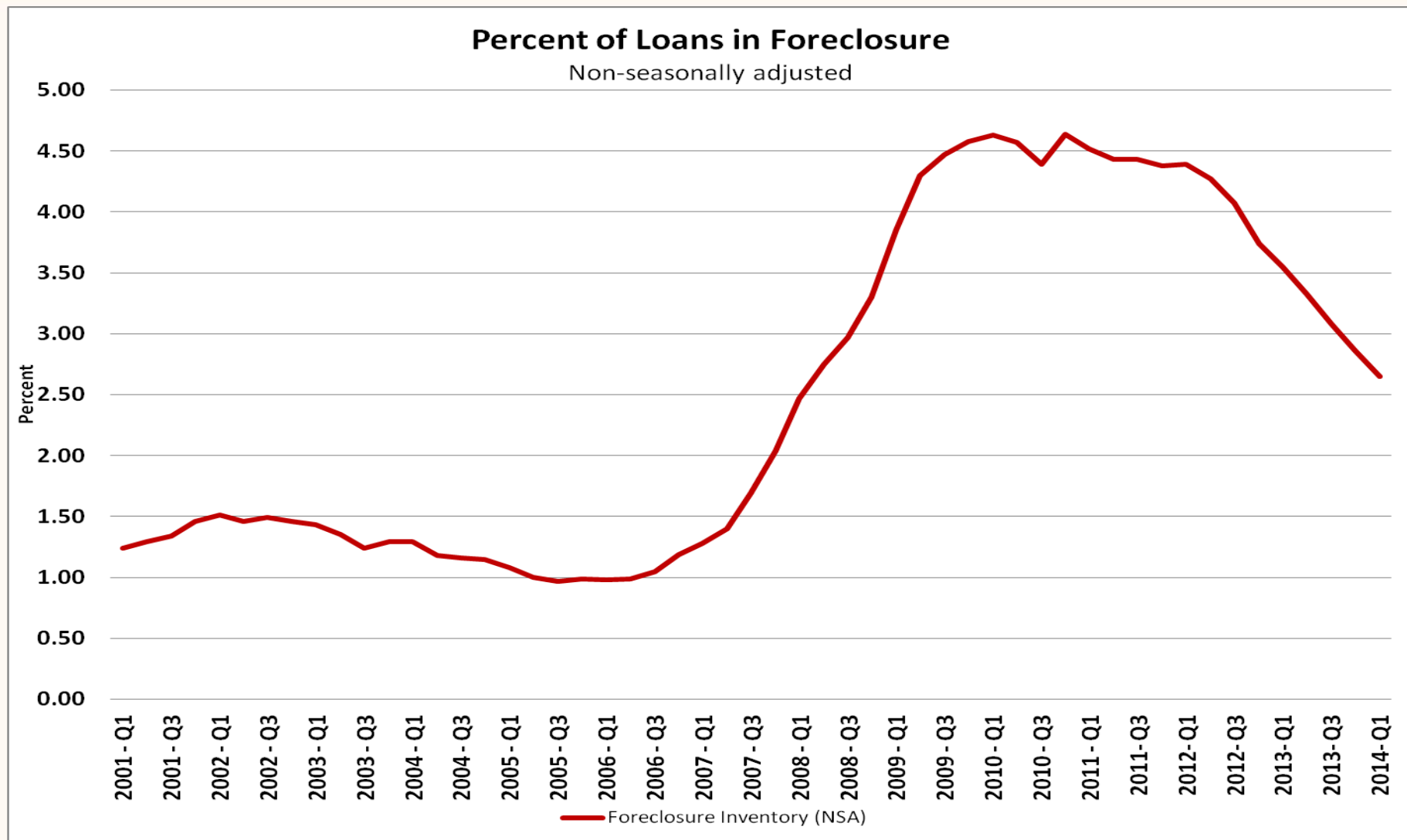
September 12, 2014
International Union for Housing Finance
Munich, Germany

Steve O'Connor
Senior Vice President, Public Policy & Industry Relations
Mortgage Bankers Association

MBA

The Financial Crisis – A Systemic Event **MBA**

- U.S. Housing Finance Icons Fell – 2007 & 2008
- Structural Stress and Uncertainty
- U.S. & World Economies Shaken
 - Crisis of Confidence
 - U.S. Home Values Dropped 33% from Peak in 2006
 - \$7 Trillion of Lost Household Wealth
 - \$7 Million Families Lost their Homes
- Collective Failure – Industry & Policymakers Failed to Anticipate Crisis
 - Unrealistic Expectations re: Home Price Appreciation
 - Misplaced Faith in “Self-Correcting” Market



- Dodd-Frank “Wall Street Reform and Consumer Protection Act of 2010 “
 - 850 pages – Largest Re-Write Ever of U.S. Financial Law
 - National Bank Act (1864) – 29 pages
 - Glass Steagall (1933) – 37 pages
 - GLBA (1999) – 145 pages
 - Calls for Hundreds of New Regulations
 - Complete Overhaul of U.S. Mortgage Rules
 - Two Key Areas:
 - Protect Financial System
 - Protect Consumers

- Risk Layering
 - Low Downpayment Loans.....plus
 - Income/Assets Not Verified...plus
 - Riskier Products
- Misuse of Products
 - Sophisticated Products used to “Qualify” Marginal Borrowers
 - Variable Rate Mortgages & Teaser Rates – Payment Shock
 - Emphasis on Initial Payments vs. Sustainable Affordability
- Misaligned Incentives
 - Originate to Distribute – Lack of Accountability
 - Industry Compensation Trumped Consumer Care
- Asymmetrical Information
 - Opaque Consumer Disclosures
 - Misplaced Trust
- Low-Income and Less Sophisticated Consumers – Vulnerable Targets

- New Rules – Close Gaps in Regulation of Entities & Practices
 - Supervise Less Regulated Entities
 - Target Common Abuses
- Accountability – Consequences for Breaking Rules
 - Align Incentives between Borrower & Lender/Investor
 - Effective Enforcement
- Transparency – Clear Disclosures & Better Information
- Balance – Preserve Access to Affordable Mortgage Credit
 - Robust & Competitive Marketplace
 - Responsible Innovation & Risk Taking

- New Super Regulator – “Consumer Financial Protection Bureau” (CFPB)
 - Exclusive Focus on Borrower Protection
 - Powerful, Independent, and Well-Funded
 - Jurisdiction for 18 Consumer Financial Protection Laws
 - Significant Regulatory Discretion – Can Create New Rules
 - Supervision & Enforcement
- Regulating Products & Practices – New Rules
- Several Thousand Pages of Proposed Rules for:
 - Better Consumer Disclosures (Application & Closing)
 - Better Qualified Loan Originators (Licensing & Training)
 - Compensation Restrictions for Loan Originators (Prevent Steering)
 - Better Underwriting Practices (Confirm Borrower Ability to Repay)
 - Product Restrictions (Prohibit Certain Terms for Higher Cost Mortgages)
 - Better Accountability (Risk Retained by Originators/Investors)

- CFPB Rules – Effective January 2014:
 - Ability to Repay/QM Final Rule
 - HOEPA High-Cost Mortgage Rule (Reg Z)
 - Loan Officer Compensation & Qualifications Rule (Reg Z)
 - National Servicing Standards (Reg X & Reg Z)
 - Escrow Rule
 - ECOA Appraisal Disclosure Rule
 - Appraisals for High Risk Mortgages Rule

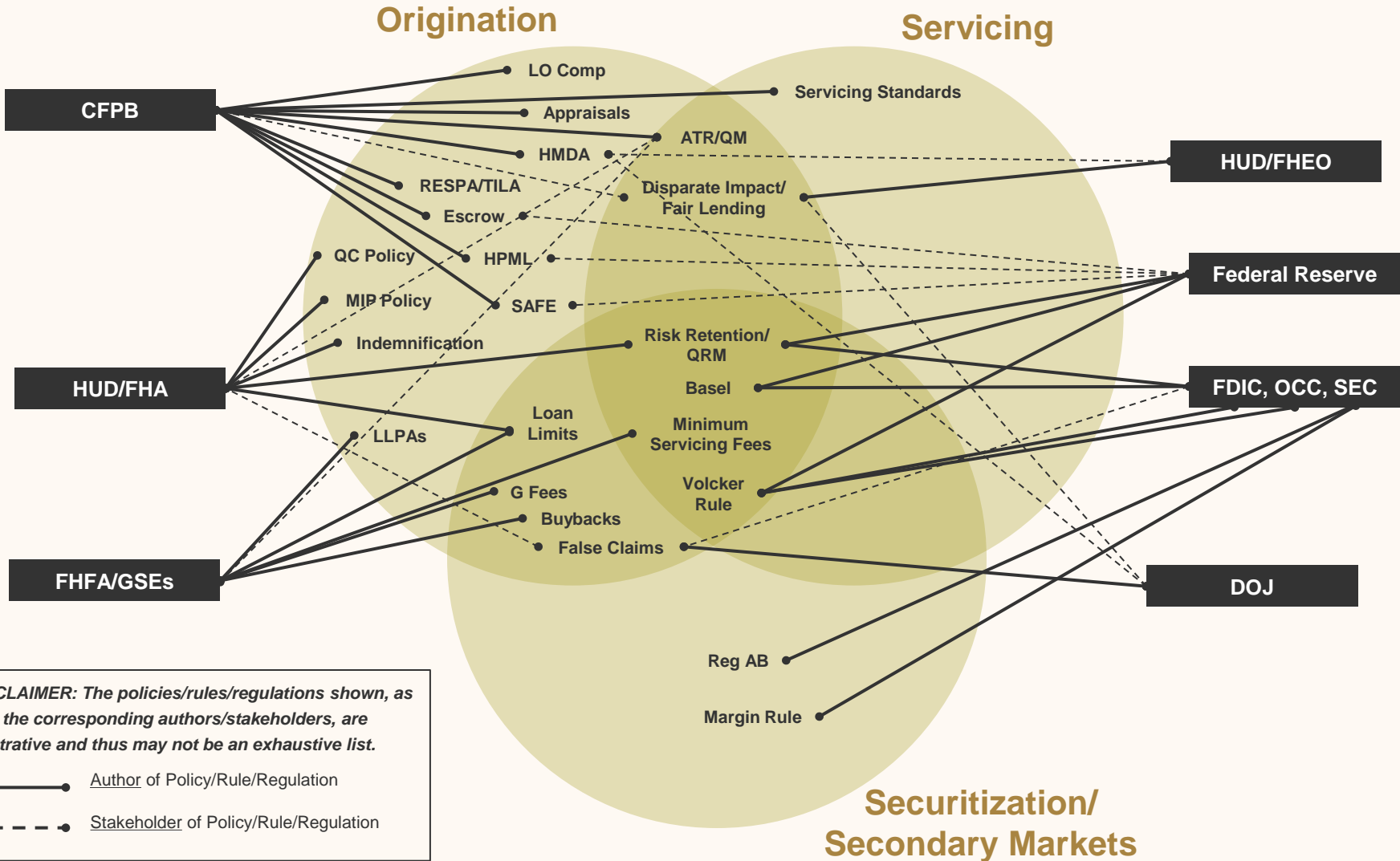
4,240 Pages of Final CFPB Rules

- HUD Disparate Impact Rule – March 2013
- Basel III Rule – Phased-In thru 2019
- More to Come...
 - Risk Retention/QRM Rule – Final Rule expected late 2014
 - RESPA-TILA Mortgage Disclosure Integration Rule – Effective August 1, 2015
 - Home Mortgage Disclosure Act (HMDA) Rule – Proposed Rule in July 2014

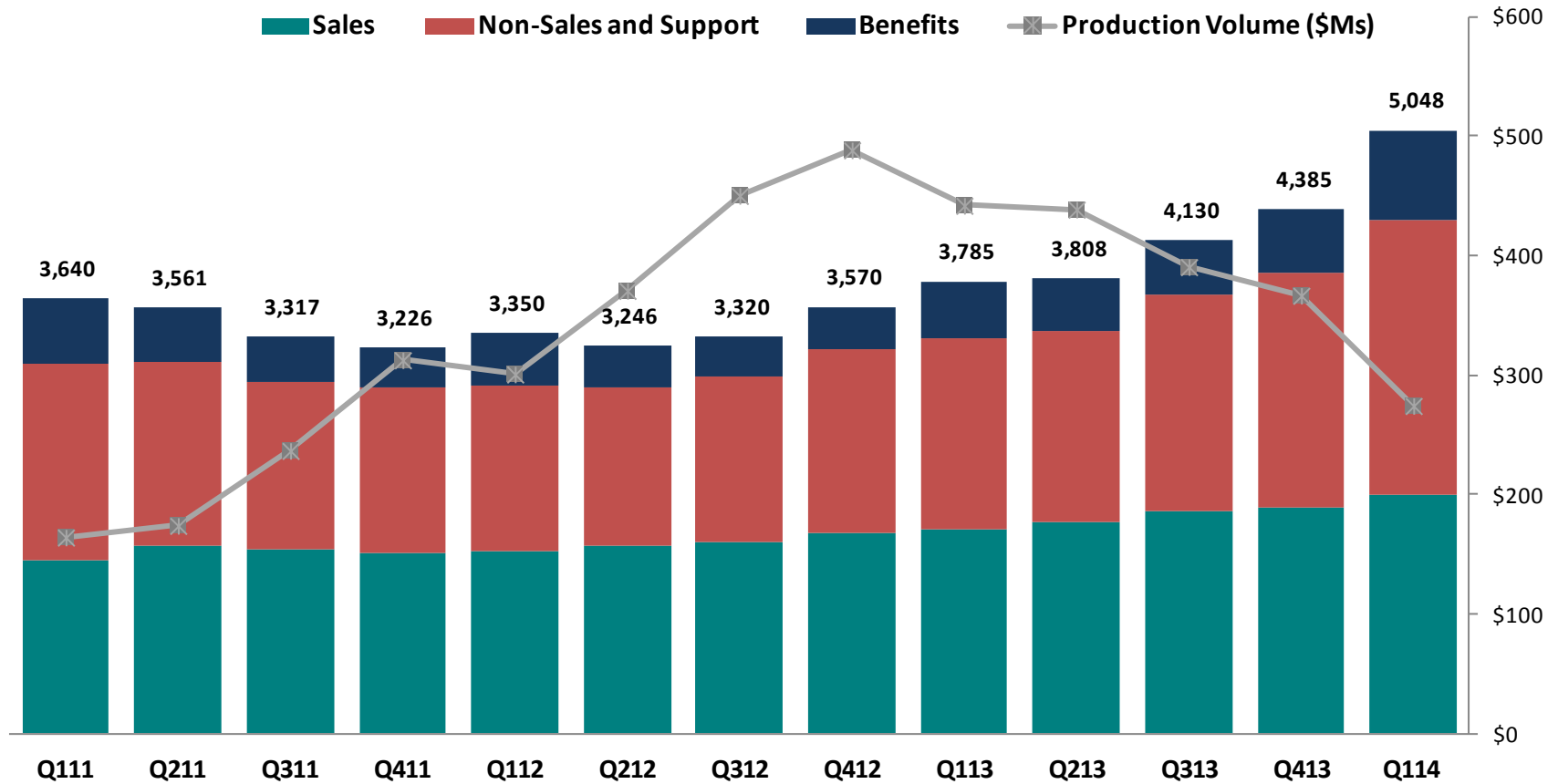
- Complex with Numerous Agencies & Overlapping Jurisdictions
- Regulators
 - Three Prudential Bank Regulators – FRB, FDIC, and OCC
 - Non-Bank Financial Regulators – SEC and CFTC
 - Individual State Regulators
 - CFPB
 - FTC
- Coordinating Bodies
 - FSOC
 - FFIEC
- Housing Regulators
 - HUD/FHA
 - FHFA
 - VA
 - RHS

The Regulatory Ecosystem

...for what has become a very complicated web of relationships and interdependencies.



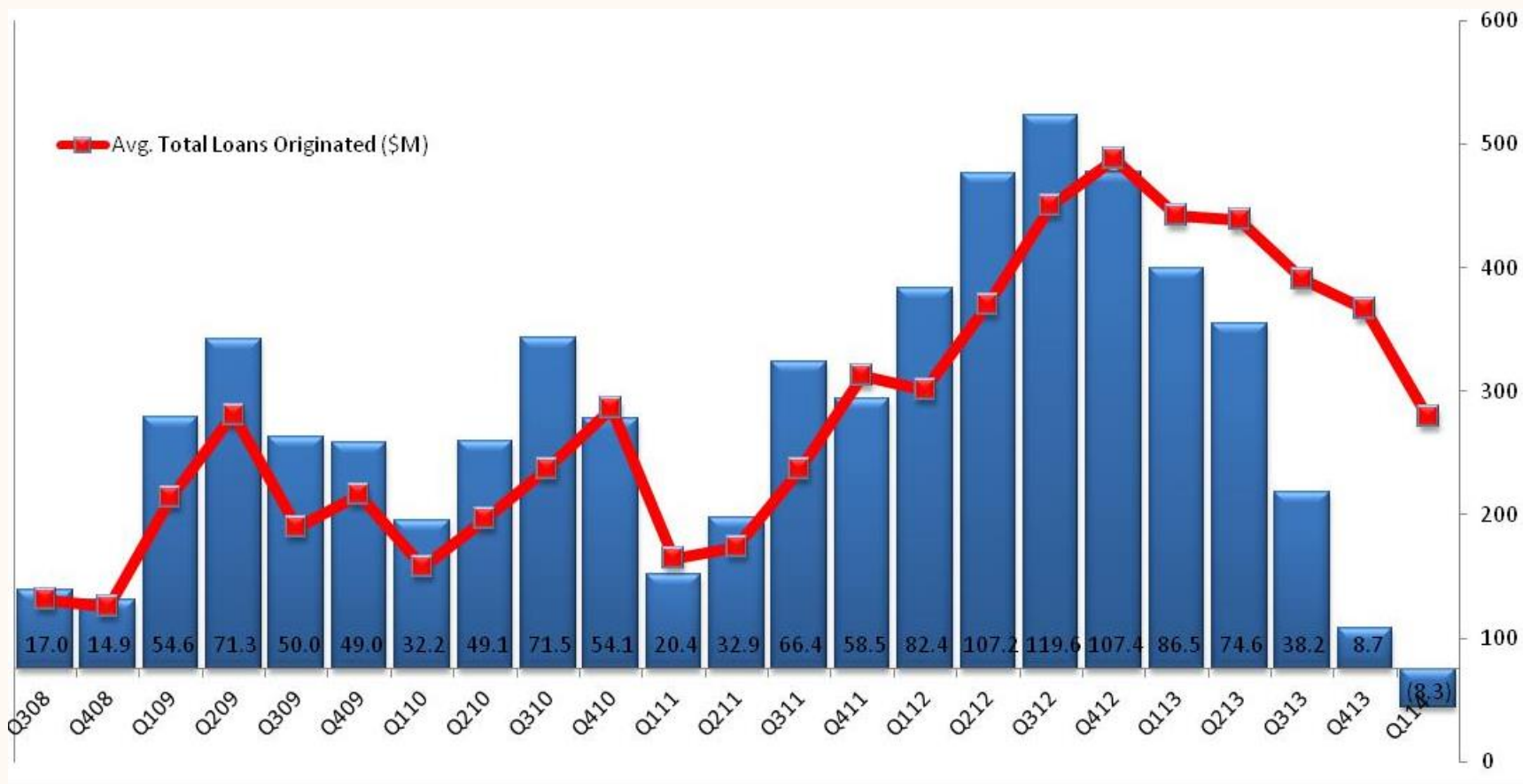
Production and Production Support Personnel Expense (\$ per loan): 2011 to present



Source: MBA's Quarterly Mortgage Bankers Performance Report

Total Net Production Income (bps)

MBA



Source: MBA's Quarterly Mortgage Bankers Performance Report

- Legal Decisions Driving (vs. Informing) Business Behavior
- Cost to Comply – Large Targets / Small Lenders
- Private Litigation & Regulatory Enforcement – Future Fault Lines?

- Access to Credit
- Structural Reform of the Secondary Market
(Fannie Mae & Freddie Mac)
- Return of Private Capital

QUESTIONS?

MBA