Remarks By

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Good afternoon. It's a pleasure to be here today to talk about prospects for recovery of the housing and mortgage markets in the United States. I am going to limit my remarks to the activities of the banks as mortgage servicers, and how we are addressing problems there, not the wider question of the role of government in the US housing finance system – an even more complex set of issues in need of resolution that I will leave to others.

We're now five years past the peak in US housing prices, and continuing to deal with the fallout from the housing bubble gone bust. Much debris has been cleared from the system, but the return to trend growth in the housing sector and normal operation in mortgage markets is still some way off. I seem to constantly read analyst reports that say a housing recovery is two years away. Then I remember that I read the same thing last year, and the year before. So the end is in sight, but always two years away.

If progress sometimes seems slow, perhaps that's not surprising given how quickly the housing bubble inflated and how dramatically the market collapsed after it burst. In the six years leading up to the 2006 market peak, US home prices rose about 90 percent, and the value of mortgage debt doubled, from $5 trillion to $10 trillion. And this was not solely a US phenomenon as, during the same period, house prices increased 107 percent in the UK, 93 percent in France, 80 percent in Australia and 67 percent in Sweden.

In the five years since the market peak, house prices have fallen more than 30 percent nationally and even more in some key markets. House prices are down 44 percent in California; both Florida and Arizona have lost half their value; and Nevada is down 59 percent, leaving many borrowers underwater on their loans – unable to sell or refinance.

The market collapse has taken a heavy toll on the banking industry. Charge-offs of residential real estate loans run at a few basis points in a normal year, but jumped to 2 percent of the portfolio in 2009. American families and their communities have suffered as well, as foreclosures jumped to 2 million in 2009, four to six times what they would be in a normal year.

Given the strain these developments placed on the mortgage servicing system and the complaints registered by distressed homeowners struggling to stay in the their homes, it probably should not have been a surprise to learn that the process for handling the large volume of foreclosures was breaking down. But I was certainly shocked last year when we discovered widespread and serious irregularities in the most routine financial and legal steps in the foreclosure process. Robo-signing is perhaps the most visible of the flawed practices, but it was only one of the legal and compliance problems we found throughout the process.

When the practices came to light at one servicer, the OCC and the other federal banking agencies focused our attention on 14 large servicers that handle 68 percent of the mortgages in this country, including eight large national banks subject to OCC supervision. We directed these servicers to conduct a self-assessment of their processes, while we made preparations to launch an intensive round of examinations.

OCC supervision of our largest banks relies on teams of examiners who work full-time at the banks they are responsible for, as many as 80 in a single large bank, assisted over the course of the year by perhaps two dozen more. The teams include seasoned examiners with expertise across all major areas of bank operations, supplemented as needed, by specialists in areas such as risk modeling. For this horizontal exam, we dedicated 100 of the agency's most experienced examiners – nearly 20 percent of our large bank exam force – to review a sample of foreclosure files in great detail.

While our exams found that the loans in the sample were seriously delinquent, we also found critical deficiencies in the way they were handled by the servicers – deficiencies in the governance process, in document preparation, and in the oversight and monitoring of third party law firms and vendors. The sample we looked at established clearly that there were significant problems that needed to be fixed without delay, providing sufficient grounds to craft enforcement orders that are among the most complex the agency has ever undertaken.

We have pursued this matter so aggressively because correcting improper practices in foreclosure processing and mortgage servicing is of the utmost importance for the safety and soundness of the banks, for the financial health of troubled homeowners, and for recovery in the housing sector. The individual banks have suffered a very damaging blow to their reputations; in fact, the reputation of the entire industry has suffered. For borrowers, loss of a home through foreclosure is a financial and personal tragedy; the widespread foreclosures taking place can create economic blight for a community. It is unfortunately true that significant numbers of homeowners continue to face the loss of their homes in our slow-growth economy, but it must also be true that troubled borrowers can expect to be treated fairly and afforded every protection provided under the law. I am confident that our enforcement actions will do just that: ensure that at-risk borrowers get a fair chance to stay in their homes, while assuring that those who do find themselves in foreclosure receive appropriate protection and due process under the law.

Unfortunately, such a complex process will take another year and more to complete. I wish it could be completed more quickly, but it's important that it be done correctly and in a way that assures fair treatment for homeowners who underwent foreclosure proceedings. That's the only way to restore confidence in the system, and it is my hope that the assurance that both past errors and future practices are being corrected will restore confidence much sooner.

While much remains to be done, we are making real progress. We will shortly make public the details of independent foreclosure reviews for each servicer. Every borrower who was subject to foreclosure in 2009 and 2010 has a right, under our orders, to request a review of their case if they believe they suffered financial harm because of deficient practices. To give you a sense of the magnitude of this undertaking, the total number of properties serviced by the 14 banks that were in foreclosure during 2009 and 2010—the period covered by our enforcement actions—numbers 4.5 million. Just contacting all those eligible for review to provide necessary information will be a challenge.

Our enforcement orders required each of the 14 servicers to hire an independent consultant to design a process of case intake, review, and remediation. In addition, our enforcement orders require file sampling to identify borrowers who may have suffered financial harm, but were reluctant to come forward to submit a request for an independent review of their case. This effort includes a massive campaign to get information out to affected borrowers. There will be a series of mailings, and use of tracing techniques like those used in class action filings. This will be followed up by an advertising campaign intended to reach those who could not be located by other means. We have required the servicers to establish a single web-site and a single toll-free number to provide borrowers a simple, user-friendly means of getting forms and information.

The independent consultants hired by the banks will have responsibility for reviewing cases of borrowers who claim financial harm because of flaws in the process, and they will have responsibility for ensuring that those borrowers receive appropriate restitution or other types of remediation, if appropriate. To underscore the independence of the review, it was a condition of approval that the servicers agree that the foreclosure review work will be subject to direction from the OCC, and not the servicer. We have required specific terms in each engagement letter to assure this.

These enforcement actions will be a complex and expensive undertaking for the banks, and the amount of restitution is open-ended and will only be known when the process ends. It is also worth noting that the OCC is not the only agency engaged in pursuing remedies for foreclosure processing failures. You have already heard from the Secretary about the activities of the Department of Housing and Urban Development, but the Department of Justice, the Federal Housing Finance Agency, and the 50 state Attorneys General are also engaged in settlement talks with a smaller group of the servicers. Any enforcement actions or settlement agreements they undertake will place additional requirements on the servicers, and it is essential that we harmonize the requirements of our orders with those of other regulators if and when they are reached. It just doesn't make any sense to have multiple sets of requirements and standards apply to the same servicers operating in the same markets.

As we have pursued our enforcement orders, it has become clear to us that fixing the immediate problems and making sure that defective practices don't reemerge requires the creation of uniform standards for mortgage servicing that will apply to all servicers and protect all borrowers. Our enforcement orders themselves set some standards: for staff training and management information systems; a single point of contact for at-risk borrowers; and procedures to ensure foreclosure actions stop when a borrower is approved for a trial or permanent modification, so-called dual tracking.

However, if we are going to protect all borrowers and cover all servicers, we need to engage on this issue more broadly. The OCC and the Federal Reserve have both proposed similar sets of nationwide servicing standards, and an interagency group has been formed to pursue them. This includes the banking agencies, the Consumer Financial Protection Bureau, the Federal Housing Finance Agency, and others. Given their responsibilities for banks, non-banks, and GSEs, the combined agencies can craft standards that will apply uniformly to all providers and all borrowers.

We have to solve the US housing finance problem comprehensively given just how important housing is to the U.S. economy. The decline in household net worth, driven in large part by decline in real estate values, is one reason consumer spending has been sluggish during the current economic recovery. Beyond the impact on consumer spending, housing has an important effect on jobs and growth. U.S. residential construction employment, for example, jumped from 2.6 million to 3.4 million in the six year run-up to the market peak. In the years since, those numbers have fallen 40 percent, to 2 million jobs. And that doesn't take account of the jobs lost from the decline in sales of furniture, curtains, appliances and all of the other products people buy when they move into a new house.

The challenges before us are substantial, but so are the steps we have taken in our enforcement orders. I believe that we are on track to settle outstanding issues in a way that respects the needs of all who have truly suffered from flaws in the system and restores confidence in the system. The sooner the better.

Thank you.