Remarks by
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It is a pleasure to join you today and to be part of this exceptionally substantive agenda—an agenda that reflects the importance and complexity of the business of issuing, servicing, and investing in, asset-backed securities.

I have three questions to take up with you today. First, what are the prospects for a revival of the nation's housing sector? Second, what role will mortgage-backed securities play in the evolving structure of housing finance? Finally, what changes are on the regulatory horizon and what is their likely impact on the housing sector and the financial system that supports it?

This is an ambitious agenda, so let me dive right in.

The financial crisis has brought substantial changes in financial behavior and financial services regulation. Lenders and potential investors in asset-based securities, particularly residential mortgage securities, have become more cautious and more risk-sensitive. Under Dodd-Frank, mortgage lending and securitization activities will be subject to increased regulatory oversight and conditions. New rules are being crafted to require securitizers to have even more skin in the game, to give investors granular information about pooled assets at the loan level, and to impose liability on originators that make mortgages without regard for the homeowner's creditworthiness. And regulators, for our part, will be more aggressive in overseeing mortgage lending, servicing, and securitization practices.

This is all as it should be. As the financial crisis starts to recede into history, it is important to keep in mind the path that got us there. A partial list of contributing factors would include abandonment by some lenders of sound credit underwriting, particularly of subprime mortgages; borrowers who came to believe they could rely on never-ending appreciation of their properties; mortgage brokers who issued loans their customers were not likely to be able to repay; government-sponsored housing finance enterprises that did not exercise adequate quality control of the loans they guaranteed; and, last but not least, the residential mortgage-backed securities that transmitted risk of a housing market correction from loan originators to investors around the world—investors who were hungry for yield and placed undue reliance on flawed credit ratings suggesting that the mortgage securities in question were as safe as investment-grade corporate bonds.

On the other hand, it is clear, though not surprising, that the collapse of the market for residential mortgage-backed securities after the crisis contributed to a credit crunch in the housing sector that persists to this day. Obviously, not everyone who wants a loan should get one—a lesson well learned from the crisis. And there are millions of American homeowners who would like to refinance but cannot because they are underwater on their original loans.

But today's stricter underwriting standards for mortgage loans have clearly contributed to the sluggish and spotty housing recovery, which in turn has been one of the primary causes of sluggish and spotty economic growth. It also means continuing problems for the many communities struggling with big inventories of foreclosed properties.

The credit-availability pendulum has swung, as it was bound to do, in reaction to poor performance of the underlying assets, home price instability, and a lack of investor demand for anything other than a government guaranteed product. As these factors abate, underwriting standards will need to find a new equilibrium of risk and reward for a sustainable mortgage market. Getting the securitization pipeline flowing again is a critical component in turning this picture around.

What will it take to get that done? In my view, there are two key prerequisites. First, there needs to be clear evidence of stability in the value of the underlying asset—in other words, evidence that the precipitous drop in home values from 2006 to 2009 is over.

The news is promising on this score. We are starting to see signs of stabilization, with modest price increases in some markets and slowdown in foreclosures and defaults. Although the cities that were hardest hit during the recession still have home values well below pre-crisis levels, the overall trend is positive. Housing today is lending strength to the economic recovery, rather than sapping it.

The importance of price stability—and understanding the characteristics of the asset being securitized—come into focus in examining what has been one of the recent bright spots in the securitization business—namely, auto loans. From 2011 to 2012, issues of securities backed by auto loans grew by 40 percent, to the highest level since 2006.

There are a number of explanations for this trend. Not the least of them is the fact that these asset-backed securities offer relatively attractive yields to corporate and other investors seeking to deploy their surplus cash. But perhaps the most compelling explanation has to do with the track record of the underlying assets. The fact that this asset class held up relatively well in the face of a severe economic downturn should give confidence to lenders and investors that well-designed securitization structures can remain relatively safe investments in good times and bad.

The second prerequisite to getting the securitization pipeline flowing again is to resolve the legal and regulatory uncertainties that have kept many investors on the sidelines. I am encouraged by recent steps that financial institutions have taken to address many of these issues. Important settlements have been concluded between a number of large banks and the GSEs regarding put-backs of defaulted mortgages—mortgages that, upon further scrutiny, were found to have belied the originators' representations regarding appraisals and borrowers qualifications. Most recently, in an $11 billion settlement, Bank of America brought closure to a long running dispute with Fannie Mae stemming from loans made by Countrywide prior to its acquisition by BofA. With these settlements and the end of the uncertainty associated with them, large banks will be able to put to more productive use the enormous resources associated with resolving these cases. The housing sector generally and access to credit for home purchases should benefit.

Further clarity comes from the national foreclosure settlement recently reached with the financial institutions subject to the OCC's April 2011 enforcement action for deficient practices in mortgage loan servicing and foreclosure processing. Under this settlement, banks will make about $3.3 billion in cash payments to certain borrowers. They will spend another $5.2 billion to provide other assistance, including loan modifications and forgiveness of deficiency judgments. While a settlement of this magnitude will impact the bottom line of the subject banks in the short term, we concluded, and they agreed, that it was in their interests and in the interests of affected borrowers to resolve the issue without further delay. The settlement will bring closure to a prolonged and expensive review process; put cash into the pockets of eligible borrowers; and allow banks to focus squarely on the important business of lending to American businesses and consumers.

I also believe that recovery of the housing sector depends as much on clarity and predictability about regulatory policy as it does on clear and stable asset values. That is an area in which I believe we have made significant progress.

Directly or indirectly, Dodd-Frank impacted mortgage lending in multiple ways. It required regulators to adopt rules on mortgage servicing, mortgage disclosure, special appraisal and escrow requirements for "higher-risk" mortgages, mortgage loan originator compensation, and more. In addition, Dodd-Frank drastically reduced the role of credit ratings and the agencies that produce them, requiring regulators and banks to identify alternative means for banks to use in assessing the creditworthiness of securities and money market instruments in rulemakings and industry guidance.

All this rulemaking has been complicated and protracted, in part because the rules are so sweeping and because we wanted to give due consideration to the tens of thousands of comments we received in the process. In addition, in regard to key issues such as the securitization risk retention rule, our determination to avoid the "one-size-fits-all" approach has resulted in a matrix of retention solutions that has unavoidably added substantial complexity. However, I certainly don't have to tell the ASF that securitization of different asset classes is not a "one-size-fits-all" approach either, and we believe the work we are doing to recognize those differences is essential to the vitality of the securitization market.

Few rulemakings were awaited with greater anticipation throughout the mortgage market than the CFPB final rule on qualified mortgages, which was released earlier this month and which will take effect January 2014. The details of the QM rule will be the subject of a breakout session this afternoon, so I won't go into it, except to say that having a final rule goes a long way to delivering the clarity and certainty the industry has been calling for. I applaud the CFPB for its efforts to be responsive to concerns and for formulating a final rule that tries to balance the need for a safe harbor with the need for strong consumer safeguards.

The final rule on QM helps pave the way for implementation of Section 941 of Dodd-Frank on Qualified Residential Mortgages (QRMs) and risk-retention. The law requires that asset securitizers retain at least 5 percent of the credit risk in any asset-backed security. But the law makes an exception for QRMs. According to the proposed rulemaking issued by the OCC and the other regulatory agencies in 2011, loans that conform to the more exacting QRM standards, lowering their risk of default even further, would not be subject to the risk retention rule. Those standards include a minimum cash down payment requirement, a loan-to-value requirement, and more.

There has been a great deal of controversy over the proposed QRM definition, and I understand how important this rule is to you. I can assure you that the OCC and the other regulatory agencies involved in its formulation are working hard to achieve our objectives: encouraging the availability of consumer credit on reasonable terms, facilitated by the secondary mortgage market, on the one hand, and sound credit market practices and investor protection on the other. Just as in the case of our previous rulemakings, we are listening carefully to all stakeholders.

Regulators can facilitate the recovery of housing and housing finance in other ways, and I am pleased to report that the OCC is doing its part. Our Mortgage Metrics report, which we publish quarterly, has become an authoritative source of information on the performance of mortgage loans nationwide and the disposition, through loan modification or foreclosure, of loans in default. The most recent report, covering the second quarter of 2012, showed seriously delinquent mortgages falling to their lowest level in three years—another reason for optimism that the market is clearing, values are stabilizing or rising, and the environment for lending and securitizing is improving.

As the supervisor of a large part of the nation's banking assets, the OCC strives to be a thoughtful leader in the field of housing finance. While that has been our consistent goal, it has taken on new importance since 2011, when most of the people and most of the functions of the Office of Thrift Supervision were integrated into the OCC. Supporting housing finance and home ownership was central to the mission of the OTS and that of its predecessor agency, the Federal Home Loan Bank Board. The OCC has inherited that mission, and we are determined to do it well.

Thank you very much.