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Remarks as Prepared for Delivery by Housing Policy Council President Ed DeMarco at the Women in Housing & Finance Annual Meeting

Washington, D.C. – *Ed DeMarco, president of the Housing Policy Council (HPC) addressed Women in Housing & Finance members today to discuss the current state of housing finance reform and the industry's response to challenges amid the Coronavirus pandemic. Below are excerpts from DeMarco's speech, as prepared for delivery:*

My task this afternoon is to offer some contemporary reflections on housing finance, which I will do. Yet it seems inadequate to the moment to talk about housing finance without applying a wider-angle lens.

The worldwide COVID-19 pandemic has unleashed both a health and an economic catastrophe. While I hope that all of you have been fortunate enough to have escaped both the virus and a loss of income, many have not. And we know that, while we all are vulnerable, the impact has not been uniformly distributed. The elderly and workers in nursing homes and meat-packing plants and those in certain urban areas have been especially hard hit. Some business sectors, such as travel, restaurants, and entertainment have been hit badly yet other sectors are booming, including housing finance.

The distribution of harm has also not been uniform by race. Black Americans have been especially hard hit, both by COVID-19 and by its economic displacement. The George Floyd killing reminded us again of disproportionate outcomes adversely affecting our black neighbors and fellow citizens. While police brutality has been the focal topic, those of us here, as housing and finance professionals, know the country's history of redlining and other housing discrimination.

As tragic and unsettling as all this has been, these weeks have reminded us also that heroism and hope is everywhere. From healthcare workers to grocery store clerks to peaceful marchers to the 18 year old who went out by himself at 2 in the morning to clean the streets of Buffalo, we have seen great things accomplished by ordinary people stepping up to do their part. These ordinary heroes remind us we can each play a part in bringing about positive change and creating a better tomorrow. But we also know we have much hard work ahead to make it so.

So, for a group dedicated to housing and finance, let's review how the housing finance system has responded the past three months, what we have accomplished, and some of the challenges and opportunities that lay ahead.

The contrast between the past three months and the Great Recession shows just how far mortgage servicing has come. In the Great Recession, it took three years for unemployment to go from its trough to its peak. With the pandemic, we accomplished that in just three months. In the Great Recession, delinquency rates grew slowly and then accelerated, but overall took six years to grow from the low point to the peak. With the pandemic, we went from near-record low delinquency rates to 9 percent forbearance in less than three months.

In the Great Recession, it took years of effort to develop and harmonize effective servicing practices that helped keep families in their homes and avoid foreclosure. In the pandemic, with the experience from the Great Recession and then the spate of large-scale natural disasters, servicers answered the bell as the layoffs and furloughs began.

On March 23, ten days after the President declared a national emergency, the Housing Policy Council and other leading industry trade associations put forward a comprehensive proposal for short-term payment relief and longer-term assistance for affected households. Five days later, Congress passed the CARES Act, which established a uniform forbearance mandate for federally-backed mortgages.

Since then, consider the following:

- Most mortgage servicers shifted virtually all their operations out of call centers and office buildings to kitchens and family rooms set up as home offices, with kids and pets replacing colleagues and modern technology as office surroundings.
- Servicers trained their staffs remotely to manage the enormous inflow of borrower inquiries. Not everyone that called actually asked for forbearance. Many wanted to learn about the lifeline that was available to them, if they needed it. But each caller deserved a servicer's attention.
- Servicers also set up automated on-line tools – in some cases in just a few days – for borrowers to educate themselves and request payment relief using efficient and streamlined processes.
- Each week brought new program changes from FHA, Ginnie Mae, the GSEs, and FHFA, and with each change, servicers updated their protocols, trained their staff remotely, and kept going.

- Given all this, it is quite an accomplishment to say that, in just two months, more than 4 million households now have their monthly mortgage payment in forbearance.

Liquidity challenges facing nonbank mortgage servicers dominated the news in April. In the end, it was a combination of policy actions and the market's response that restored stability and a measure of calm. With Ginnie Mae, FHA, FHFA, and the GSEs each announcing program changes that put more reasonable boundaries around servicer liquidity needs, market confidence improved, and markets responded with increased access to liquidity.

A program of 4 million forbearance plans does not happen by luck (nor does it happen without a few missteps). It happened because servicers, bank and nonbank, are more sophisticated and more nimble today than they were in the past crisis. As evidence, consider how rapidly many servicers established online portals with consumer information and offering online forbearance requests. And consider how rapidly servicers updated these tools as FHA and the GSEs altered their program requirements.

There is more to this story. The CARES Act required forbearance for borrowers in federally-backed mortgages that declare a financial hardship. But look at the forbearance numbers. According to Black Knight, by early June, 12 percent of FHA and VA loans were in forbearance and 7 percent of GSE loans were in forbearance. Servicers of those loans are required by the CARES Act to offer forbearance.

Yet for non-federally backed mortgages, Black Knight reports 9.5 percent of such loans were also in forbearance. These include non-QM loans, bank portfolio loans, and loans in private-label securities.

This is a clear indication that bank portfolio lenders and other investors have also responded voluntarily, without a federal directive, providing borrower payment relief at an even greater rate than we see for GSE loans.

I've spent a lot of time talking with mortgage servicers the past few months. What I have witnessed is a group of firms working under difficult circumstances and with a good bit of uncertainty trying to do their best for their customers. When mistakes get made, or misunderstandings occur, the escalation is prompt and the resolution swift.

Speaking directly about the Housing Policy Council's membership, made up of most of the country's largest bank and nonbank lenders and servicers, I can assure you this has not been easy, and we recognize challenges are ahead. With daily calls over many weeks, I have witnessed their efforts to understand and interpret the myriad of rules and program requirements placed on them. Most of all, I hear time and again my members ask: what is in the best interest of the customer?

So, to those of you listening who have been part of these front lines, thank you.

Beyond assistance to those facing economic disruption to their ability to pay their mortgage, we have also seen an incredible boom in mortgage lending. With interest rates again finding new lows, both the refinance market and now the purchase market are soaring. That these loans are getting made in the midst of stay-at-home orders, is a testament to creativity, technology, and program and regulatory flexibility. From flexible methods of verifying income to appraisal accommodations to remote notarizations, the industry has adapted on the fly.

As a result, the housing finance industry is doing well and is increasing its employment. More than that, it is delivering mortgage relief to those who need it and lowered monthly mortgage payments to many.

Despite these accomplishments, we also know that the work is far from done. We have near-term and longer-term challenges ahead.

Let's start with the near-term. Already, some customers are ready to exit forbearance, which is a good sign. In the months ahead, millions of such discussions will take place between borrowers and servicers. Requesting and receiving forbearance required little more than contacting your servicer and declaring a financial hardship. No paperwork was involved and there was not much to decide.

Longer-term repayment solutions will not be as simple or as uniform a process, given the unique circumstances of customers and variety of options available to customers by lending product. Yet finishing this job successfully will have lasting impact on households and on how lenders perceive mortgage market risk in the future.

Each customer will have unique circumstances, priorities, and preferences. Servicers will have to do their best to help each customer find the post forbearance outcome that satisfies the

customer's needs, the loan guarantor's requirements, and an array of regulations. Some customers will return to their old jobs at their old pay levels and will be ready to resume their old mortgage payments or a new payment that is slightly higher. Let's hope that's the vast majority.

Even for them, the choice of how and when to catch up may be more complicated than some narratives suggest. Some will want to get caught up soon while others will want to defer as long as possible.

The process of getting borrowers caught-up on insurance and tax escrows will add to the complexity. Periodically adjusting a borrower's monthly payment to catch-up on escrow shortages and adjust escrow funding for increased tax or insurance costs is a routine occurrence. But borrowers exiting forbearance expect no change in their payment. Explaining escrow-driven payment adjustments to borrowers may be a challenge.

Unfortunately, some borrowers are not going to return to their old jobs and their old pay. In those cases, the lessons learned a decade ago will be critical to tailoring a loss mitigation option that fits the circumstances, preserving homeownership where we can. I am encouraged that the servicing industry is up to this challenge, but we should not doubt the difficulty ahead.

As I think about all this, I do hope that Congress, regulators, and auditors recognize and remember the enormity of what has been asked of the mortgage sector. Cooperation among lawmakers, regulators, servicers, and housing advocacy groups has worked well. Let's maintain that spirit of working together in good faith. And please, let us not further complicate things with 50 layers of state-level requirements, just as all this is working.

Longer-term, the pandemic has been a reminder that housing finance reform is unfinished. More than that, the past three months have also reminded us of the disparities that exist in homeownership and our collective responsibility to seek responsible and sustainable practices to address these disparities.

Let me start there. Lack of affordable housing, both in the rental market and the home ownership market, is a persistent problem that creates economic hardship and lasting social impact. Our attention must remain focused on these needs and I believe that our approaches need to evolve.

In my own experience in these discussions, debates often center on questions of risk and risk pricing. Perhaps we could make progress by thinking more about risk mitigants. After all, I think everyone shares the view that responsible efforts to promote home ownership must consider the sustainability of the loan through personal and economic bumps in the road.

Housing Policy Council members are committed to building partnerships, public and private, to tackle these issues. But we need to do more than rely on old approaches that have left us with a persistent black home ownership gap and numerous affordability issues. We need to be willing to try new approaches, approaches that overcome the barriers to home ownership and make home ownership sustainable. Effectively advancing social and racial justice in our society, including housing finance, will require cooperation between industry, consumer, and civil rights groups. HPC has already been actively pursuing such engagement and we want to accelerate those efforts.

Borrower education and building in shock absorbers, whether reserves or other tools, should be part of this discussion. We should explore "innovation sandboxes" to experiment with new products and new approaches. Gathering and publishing data from such pilots is essential to expand understanding. We can learn from both failure and success, but we need to be transparent with the data.

Our longer-term strategy also requires careful thinking about the regulatory environment that so profoundly influences our mortgage market. In the next few months, two significant proposed rules will command our attention: the FHFA's capital rule for Fannie Mae and Freddie Mac and the CFPB's forthcoming ATR/QM proposed rule. Both rules have the potential to have a dramatic impact on housing finance for years to come.

I expect both proposed rules to generate much debate. But in debating, let us not lose sight of the opportunity these rules present to expand access to credit, increase competition, enhance risk management practices, and ensure greater market stability. We cannot forget that market stability contributes directly to mortgage sustainability and wealth creation.

For years, housing finance has been dominated by two features: (1) GSEs operating with huge advantages in the marketplace, which has constrained competition and innovation and (2) government guarantee programs created to promote affordable home ownership yet slow to modernize in how they operate and falling short in achieving that public purpose.

The list is longer, but my time is short. Regulation AB II, servicing compensation, servicer capital and liquidity standards, disaster relief programs, and, of course, resolving the GSE charters all remain on the to-do list.

In closing, rather than being daunted by the list, I remain hopeful that we can continue to improve the functioning of our housing finance system. I see a mortgage servicing industry responding positively to this pandemic in ways unimaginable twelve years ago. We can get even better.

In saying this, I acknowledge that not every firm in the industry is up to this challenge. But our customers and our country are going to be best served by those lenders and servicers willing to invest for the long-term, with capital commitments and investment in people and technology to do right by their customers. Those not up to this commitment will inevitably give way to those that are.

I hope that all of you continue to remain well. I welcome your engagement on these ideas now and in the future. Thank you.

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About HPC

The Housing Policy Council is a trade association comprised of the leading national mortgage lenders and servicers, mortgage and title insurers, and technology and data companies. HPC advocates for the mortgage and housing marketplace interests of its members in legislative, regulatory, and judicial forums. The association's interest is in the safety and soundness of the housing finance system, the equitable and consistent regulatory treatment of all market participants, and the promotion of lending practices that create sustainable homeownership opportunities in support of vibrant communities and long-term wealth-building for families.

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