Remarks by

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Good morning, I'm delighted to be here with you today at this interagency conference on the Community Reinvestment Act (CRA). Since it was enacted in 1977, the Community Reinvestment Act has played an important role in the economic vitality of our nation's towns and cities, particularly in low- and moderate-income neighborhoods. Conferences like this provide invaluable opportunities to share ideas and best practices that banks and thrifts can use in developing programs that will benefit their communities, and they are useful forums for considering policy changes to improve CRA going forward.

As the economy continues to recover from a deep recession, CRA is an important part of the process of healing and revitalizing communities across America. It helps to ensure credit availability for those who want to become homeowners or borrow money to start a business or finance projects that can improve the lives of their families and the quality of life in their communities. CRA lending and investment can help communities cope with hard economic times and can accelerate recovery as the economy improves.

It is hard to imagine a broad and sustained economic recovery without resumption of home sales and new construction driving economic activity. And the housing sector is not going to return to normal until the mortgage servicing process is fixed and distressed markets heal. One of the most tragic consequences of these tough economic times has been the toll that foreclosures have taken on families and communities across America. Almost every neighborhood has been affected, and some communities have been devastated by foreclosures.

A big rock that must be cleared from the road to housing recovery is the foreclosure mess, and so I'd like to spend my time this morning discussing what we are doing to put the foreclosure processing debacle behind us.

We've been deeply involved in efforts to improve mortgage modification and loss mitigation efforts since well before the crisis reached its peak. When reports of "robo-signing" came to light in 2010, the bank regulatory agencies—the OCC, the Federal Reserve, and the former Office of Thrift Supervision, which is now part of the OCC—engaged immediately to identify, examine, and correct deficiencies in mortgage servicing and foreclosure practices. In the Fall of 2010, the banking agencies conducted targeted exams focused on 14 large federally regulated mortgage servicing banks and thrifts that collectively handle 68 percent of the nation's mortgages. State Attorneys General and a number of other federal agencies, including the Department of Justice and the Department of Housing and Urban Development, separately began to investigate a subset of those institutions on issues arising in their areas of jurisdiction.

By April 2011, federal bank regulators had issued enforcement Orders against the 14 servicing banks and thrifts, requiring them to both take steps to fix their processes and to conduct an Independent Foreclosure Review to identify and compensate borrowers who suffered financial harm as a direct result of the flawed practices identified in the Orders. The state AGs and the federal agencies conducted their own negotiations with the five largest mortgage servicers, and recently announced a National Mortgage Settlement. This Settlement is also intended to fix servicing and foreclosure practices, restructure certain "underwater" mortgages, and provide other types of relief to various categories of borrowers.

Because we moved on separate tracks and announced separate actions against the large servicing banks and thrifts, there has been some confusion about how – or whether – these actions will work together. Questions have been raised about whether they are complementary or contradictory, and about whether they will result in duplication of effort or, alternatively, if one will hinder the other.

These are reasonable and important questions, and there are good answers. Both our enforcement Orders and the state-federal settlement are aimed at fixing the problems that have plagued the servicing business and the processing of foreclosures, and are therefore, a vital step toward restoring the housing and mortgage markets to normal operation.

I've said from the beginning that it is not only possible, but absolutely necessary, that our separate actions be able to work well together. And I think we've succeeded in that. We have required the servicers to hire independent consultants to develop action plans to implement the requirements of our enforcement Orders, and the state-federal

settlement sets up a special master to ensure that the requirements of the National Mortgage Settlement are implemented. The steps we have each required servicers to take to fix the problems in servicing and foreclosure processing, such as ending dual tracking and establishing a single point of contact for distressed borrowers – will fit together well.

There are clearly some differences in approach in our enforcement actions and the National Mortgage Settlement, but again, I think the plans are complementary rather than contradictory. The state-federal settlement requires the servicers to spend money on mortgage modifications for current homeowners that will include principal write downs. Our plans are aimed at compensating borrowers who suffered financial harm from a flawed foreclosure process, and we have required the servicers to put very substantial resources into this process.

Let me take a few minutes to outline where this process stands and what remains to be done.

The enforcement Orders require mortgage servicers to hire – and pay for – independent consultants to conduct an Independent Foreclosure Review of foreclosures in process during 2009 or 2010, and make fair and impartial recommendations for financial remediation for affected borrowers. These consultants were screened so that they have had no previous role in reviewing the practices or issues they are being asked to review in the Independent Foreclosure Review. They are not subject to the servicers' direction and control. They take direction from and are overseen by the banking agencies, and those who are working on cases involving banks and thrifts supervised by the OCC are overseen by OCC bank examiners as well as a team of senior managers in our agency. This is an approach we have used in other enforcement cases where it was necessary to

bring in additional, outside resources to accomplish the tasks required under the enforcement action.

Importantly, the Independent Foreclosure Review has two components— a file review ("look-back") conducted by the independent consultants retained under the terms of the OCC's Orders, to identify financially harmed borrowers, and a process by which borrowers who believe they suffered financial injury within the scope of our Orders may request an individualized review of their situation by the independent consultants. Between these two processes, we seek to maximize, to the extent feasible and within a reasonable time frame, identification of, and remediation for, borrowers who have suffered actual financial injury as a result of the deficiencies identified in our Orders, and to provide financial remediation to them.

As part of this review process, more than a quarter million loan files are currently slated for review. This number can expand based upon the initial findings of the independent consultants. In several categories of loans, 100 percent of mortgages must be reviewed, including cases involving borrowers protected by the Servicemembers Civil Relief Act, certain bankruptcy cases, and cases referred by state or federal agencies.

Last November, the second prong of the Independent Foreclosure Review got underway with the kick-off of a separate process where borrowers who believe they suffered injury from improper servicing practices by one of the 14 servicers, can request a review of their case by the independent consultants. During the months of November and December, letters were mailed to 4.3 million eligible borrowers which provided instructions on how to request a review of their case as well as examples of situations that

would be likely to involve financial injury. This direct mailing used several tracing methods to locate borrowers and only 5.6 percent of the mailings could not be delivered.

In addition, a national print and online advertising campaign is being undertaken, in both English and Spanish, to make borrowers aware of the Independent Foreclosure Review. We are also working with a range of national community and housing advocacy organizations that are helping to identify minority media that can help publicize the Independent Foreclosure Review process. Borrower counseling groups are also being encouraged to make their current and former clients aware of the reviews and help them file claims. Indeed, many of the counseling and community development organizations who are here today are important contributors in this outreach effort.

Since the launch of this effort, over 175,000 callers have contacted the toll-free call center which can support both English and Spanish as well as arrange for translation services in 240 languages. The IndependentForeclosureReview.com Web site was upgraded earlier this month to allow borrowers to complete their requests for review online. The Web site has received almost 400,000 visits since its launch. And recently we extended the filing deadline to July 31st to allow more time for this expanded outreach to take hold, and for requests for review to be filed.

To date, over 121,000 borrower-initiated file review requests have been submitted. Among the requests received so far, the majority of issues identified by borrowers involve loan modifications, incorrect mortgage balances, improper fees, and payment processing issues.

The OCC and the Federal Reserve have issued guidance to help the independent consultants make determinations regarding errors, misrepresentations, or other

deficiencies that caused financial injury, and we plan to soon release a Financial Injury Remediation Framework to provide guidance so that financial remediation recommendations are consistent across servicers for similarly situated borrowers.

Remediation for these injuries may include, but is not limited to, lump-sum payments, rescinding foreclosures, reimbursement of lost equity, repayment of out-of-pocket expenses resulting from the error plus interest, correcting erroneous amounts owed in applicable records, and correcting credit reports.

There are no caps or limits to the amount of compensation that will be paid out or remediation actions that will be offered—this is a key feature of the remediation provisions in our enforcement Orders. The reviews are expected to take a number of months to complete, although we expect some servicers to begin offering remediation on a rolling basis before the entire Independent Foreclosure Review is complete.

It's impossible to overstate the magnitude of this effort. Let me put it in context. In the latter part of 2010, OCC and OTS examiners reviewed 2,400 files as part of the foreclosure process examinations that led to our enforcement Orders. Those reviews took four months to complete, and the OCC by itself deployed more than 100 bank examiners for the eight national bank servicers we were then responsible for. By comparison, the look-back review and request for review effort involves more than a quarter million cases and thousands of reviewers, and that number may well grow.

While the Independent Foreclosure Review corrects harm for past practices, our enforcement orders also help ensure that problems don't recur in the future.

The OCC is overseeing the work of the servicers as they establish systems and processes to correct identified deficiencies and begin to implement the new processes.

Servicers must correct deficiencies in mortgage servicing and foreclosure practices, provide effective oversight and management of third-party service providers, improve management information systems, upgrade risk assessment and management, and ensure appropriate compliance oversight. As new systems and processes are developed, we are validating and testing them to ensure compliance with our Orders. Much of the work to correct identified weaknesses in policies, operating procedures, control functions, and audit processes will continue through the remainder of 2012.

In addition, the OCC expanded the breadth of our response to ensure that *all* of our supervised institutions adhere to proper foreclosure management standards—not just those banks subject to the enforcement Orders. We issued guidance last June instructing our supervised institutions to conduct a self-assessment of their foreclosure management practices, if they had not already done so. Servicers must ensure that affidavit, notarization, and documentation processes comply with applicable laws. Third-party vendor relationships must be properly structured and managed. Also, if a borrower is successfully performing under a permanent or trial modification, the guidance limits "dual tracking"—the process where servicers continue foreclosure actions while loan modification actions are under way.

As we look to the future, the OCC and other federal banking regulatory agencies are also discussing comprehensive uniform mortgage servicing standards that will apply to all federally-regulated banks and thrifts as well as affiliated mortgage servicers. This effort is in its early stages, but the OCC is firmly committed to improve the standards and infrastructure supporting housing finance.

I can see why the various regulatory responses in this area may seem difficult to follow – there are many pieces and some are quite complicated. However, the bottom line is that, taken together, these efforts are very significant steps to ensure that this country's mortgage servicing industry operates in a safe and sound manner and that borrowers are treated fairly.

Clear, predictable, and consistent standards will create a strong foundation for healthy mortgage markets. A modern, efficient mortgage finance system should support home ownership opportunities, ensure responsible lender behavior, and promote fair treatment of borrowers facing financial difficulty. Our goals throughout this process have been clear and simple: fix what was broken; identify borrowers who were financially harmed; provide compensation for that injury; and, make sure this doesn't happen again. We are well on the road to doing just that.

Thanks again for the opportunity to speak to you today.