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May 10, 2024
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Statement by
Superintendent Adrienne A. Harris
New York State Department of Financial Services on
The Report on Nonbank Mortgage Servicing by the Financial Stability Oversight Council

First, I would like to acknowledge the work of the FSOC Secretariat, Federal Reserve, and Ginnie Mae staff who led the drafting of the report. I am proud to be here today representing the CSBS and my fellow state financial regulators. Having the state perspective here today is critical because states are the primary prudential regulators of nonbank mortgage companies.

This market has changed considerably since the 2008 financial crisis. In 2008, nonbank mortgage companies had servicing rights on four percent of mortgages. Fourteen years later, in 2022, that had increased over 13 times to 54 percent of the market. Along with that period of enormous growth, market participants have experienced a rapidly changing credit environment and market conditions.

As today's report shows, over this period, states have been working to enhance supervision of these entities. The report also acknowledges, however, that state regulators and federal agencies need to do more. We can better coordinate supervision and strengthen regulatory tools, working together to maintain a safe and sound financial system.

Since the 2008 crisis, state regulators have increased collaboration on the supervision of nonbank mortgage companies. The states have established model prudential standards, raising the bar for supervision across the country. We also have adopted new processes and tools to license and examine these institutions on a multi-state basis.

But the report rightly notes more work is needed to facilitate robust, real-time information sharing among state regulators and federal supervisors of the mortgage sector.

Like FSOC has recommended over the past decade, I support efforts to strengthen coordination. This includes the recommendation that Congress remove legal impediments to information sharing between Ginnie Mae and state regulators. Collaboration between state regulators and federal agencies is key to ensuring that the housing market and homeowners are protected at all times, particularly during periods of economic volatility or stress.

I would also like to highlight a few other findings in today's report.

First, the FSOC report discusses the costs and complexities of current Ginnie Mae program requirements. These requirements, including servicing advance obligations, contribute to liquidity risk and industry concentration. The report notes that we can strengthen the resiliency of this program by modernizing operational requirements for counterparties. Such reforms also could increase the value of mortgage servicing rights and expand market participation.

Next, the report recommends that state regulators require the largest nonbank servicers adopt recovery and resolution plans. Given the growth in this industry, such plans could be useful in promoting normal market functions in times of economic stress. If adopted, regulators should develop requirements that recognize the unique characteristics of the nonbank mortgage market, including the contractual restrictions on counterparties that affect execution of such plans. But to be effective, such plans cannot be a one-time exercise left to sit on a shelf collecting dust until a crisis strikes. They must be practical, actionable, tested and kept up to date.

The report also recommends the establishment of a liquidity fund for nonbank mortgage servicers that are in bankruptcy or distress. Additional efforts to mitigate servicing disruptions make sense, but creating new liquidity programs raises complex operational and policy questions that warrant further development. A feasibility study to fully explore these issues will help policymakers make informed, data-driven evaluations of proposals, including considerations of unintended consequences.

I know all policymakers can agree that continued close collaboration and innovation by state regulators and federal agencies will strengthen our mortgage market.

Today's report provides a helpful snapshot of the current state of the nonbank mortgage market and provides a set of thoughtful initial recommendations. I look forward to working with my fellow Council members, Congress, and my colleagues in the states to further analyze and develop these proposals.

Together we will continue to foster the health and stability of a nonbank mortgage market that serves and protects all consumers.

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