

**Dodd Statement on Problems with Mortgage Servicing
From Modification to Foreclosure Part II**
Hearing Explores Role of Regulators in Foreclosure Crisis and Response

WASHINGTON – Today Senator Chris Dodd (D-CT) chaired his last Banking Committee hearing. It was the second in a series of oversight hearings investigating widespread problems in the mortgage servicing industry. The Committee heard testimony from regulators, industry experts, and executives from Fannie Mae and Freddie Mac. The hearing explored what steps the regulators have taken to supervise mortgage servicers, and the steps they are now taking to correct the problems and protect borrowers and investors.

“At the last hearing, we learned that many servicers have not been doing their jobs,” said Chairman Dodd. “These servicers, including many of the nation’s biggest banks, have failed to maintain proper records, failed to properly administer the Home Affordable Modification Program (HAMP), hired so-called “robosigners” who submitted thousands of false and possibly fraudulent affidavits, and in some cases even foreclosed unfairly on people who should not have lost their homes.”

“It’s important also to remember that while it was servicers who caused this problem, it is borrowers who are paying the price. Confusion over sloppy and incomplete documentation has slowed the mortgage modification process for countless homeowners. Conflicts of interest in the industry may be incentivizing 3rd party servicers to actively seek to block modifications that would prevent foreclosures but cut into their profits. These problems may have resulted in problems for borrowers who otherwise may have been able to pay their mortgages, or in pushing troubled borrowers to foreclosure who otherwise may have been able to save their homes through reasonable modification efforts.

“This is a problem that the servicers should have seen coming. They got plenty of warnings, from Congress, from Sheila Bair of the FDIC who is here with us today – but whether it was out of greed or ignorance, they failed to recognize the disaster on the horizon. Now we are left to pick up the pieces, to try to help the homeowners caught up in forces beyond their control, and to do everything in our power to fix the system and prevent these problems in the future.”

Below is Chairman Dodd’s statement as prepared for delivery:

“Good morning. Before we begin, I want to note that this is likely my last time chairing a meeting of the Banking Committee. It has been a distinct privilege, and a pleasure, to work with all my fellow Committee members over the years. Senator Shelby, you have been a good friend and colleague.

“I want to welcome and thank the witnesses for appearing today, and for their testimony about problems in mortgage servicing. This is a continuation of a hearing we held last month, at which we heard from witnesses within the servicing industry and others. Today we will hear from some of the regulators responsible for overseeing the industry.

“First, let me explain what we mean by mortgage servicing. Individual mortgages are often bundled into pools of similar mortgages and sold in the secondary market as a mortgage backed security (MBS). After the origination, all processing related to the loan is managed by a mortgage servicing company. The nation’s four largest banks – JPMorganChase, Wells Fargo, Bank of America, and Citi – are also the largest mortgage servicers. Mortgage servicers have a long list of administrative responsibilities, from collecting monthly payments, maintaining detailed accounting records, paying taxes and insurance premiums, and distributing payments to the holders of the mortgage security. For this work, they receive a servicing fee.

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“Since our last hearing, news reports have suggested the problem may actually be bigger than previously thought. An employee of Bank of America testified in court that the bank’s standard mortgage servicing practices failed to meet basic loan documentation requirements, a failure that could call a huge number of loans into question. If there are more revelations of that nature, this situation could ultimately have ramifications for the safety and soundness of our whole financial system.

“Investors in the mortgage securities market, including the New York Federal Reserve Bank and Freddie Mac, are pushing banks to repurchase loans that may not have been originated as represented.

“Last month, the Congressional Oversight Panel estimated that these lawsuits and repurchases would ultimately cost banks about \$52 billion. Subsequent to that report, Barron’s magazine used data from a research firm called CompassPoint and estimated that the losses to banks could be as high as \$164 billion. Other estimates are higher still. Even for Wall Street, that’s a lot of money.

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“Today we are going to hear from the regulators about what they did, or did not do, to prevent this crisis from occurring. We want to know what they believe they should have done better, what needs to be done to strengthen oversight of this process, and what other changes may be necessary to restore the integrity of the system.”