TESTIMONY OF

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IOWA SUPERINTENDENT OF BANKING

On behalf of the

CONFERENCE OF STATE BANK SUPERVISORS

On

"THE CONDITION OF THE BANKING INDUSTRY"

Before the

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

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Introduction

Good morning Chairman Dodd, Ranking Member Shelby, and other distinguished members of the Committee. My name is Thomas B. Gronstal, and I am the Superintendent of Banking for the state of Iowa. I am pleased to testify today on behalf of the Conference of State Bank Supervisors (CSBS).

CSBS is the professional association of state officials responsible for chartering, supervising, and regulating the nation's over 6,000 state-chartered commercial and savings banks. For more than a century, CSBS has given state supervisors a national forum to coordinate supervision of their regulated entities, to develop regulatory policy, to provide training to state officials, and to represent state officials before Congress and the federal financial regulatory agencies.

In addition to regulating banks, most state banking departments also supervise the residential mortgage industry. In the past few years, CSBS has expanded its mission beyond traditional commercial bank supervision and has been working closely with the American Association of Residential Mortgage Regulators (AARMR)[1] to enhance state supervision of the mortgage industry. All 50 states and the District of Columbia provide regulatory oversight of the residential mortgage industry. Under state jurisdiction are more than 85,000 mortgage companies with 68,000 branches and over 407,000 loan officers and other professionals.[2]

Thank you for the opportunity to discuss the state of the nation's banking industry today, and specifically the challenges and conditions facing the state banking system.

[1] AARMR is the organization of state officials responsible for the administration and regulation of residential mortgage lending, servicing, and brokering.
[2] The above numbers do not include the state of California's Department of Real Estate's approximately 480,000 licensed real estate agents who could also function as a mortgage broker under their license.

Emerging Trends

Overall Condition of the Banking Industry

The problems we are currently experiencing in the banking industry—reduced earnings, tight liquidity, increased charge-offs—were triggered by the weakening of the housing market and the ensuing credit crunch. Problems in the housing market and with residential mortgage lending are well known. I will discuss state efforts to enhance supervision of the residential mortgage industry later in my testimony. First, however, I want to address some other emerging issues that my fellow state regulators identified in a recent CSBS survey.

Overall, state supervisors are witnessing a general decline in the condition of state chartered banks. With only a few exceptions, these declines are gradual. The areas witnessing a more rapid decline appear to be more pronounced in those areas with more fundamental economic problems. Naturally, the driver of the decline in conditions is related to credit. However, about a third of my colleagues are beginning to see these credit issues impact liquidity. This is a direct result of uncertainty surrounding the valuation of collateral and the lack of market confidence in portions of the financial sector which are spilling over to other sectors.

While state regulators are preparing to handle a greater number of bank failures than we have had to in the last several years, based on current information and conditions, we do not expect widespread failures. However, while a manageable number of bank failures have a limited impact on the national economy, from our localized perspective any bank failure is very disruptive to the economy and consumers in our communities and states. Additionally, over 80% of my colleagues see an increase in merger activity related to overall banking conditions. While not without challenges, mergers are a more desirable and orderly method of dealing with problem institutions.

Capital Markets and the Impact on Community Banks

While we work through the many issues related to residential mortgage lending, it is critical for us to consider emerging risks as a result of contagion or other weakness. Current capital market conditions have seriously limited the ability of community banks to issue trust preferred securities and other debt type instruments. While the capital needs of community banks are considerably different than the well-publicized capital injections sought by large, internationally active banks, they are necessary to grow, expand product offerings, and seize merger opportunities. Much attention has been paid to the largest institutions as they have faced a capital crunch. The impact of this capital crunch on the community banking sector must not be overshadowed by the problems of the money center banks, as community banks have proven to be a great source of strength and stability for communities and economies across the country.

Bond Portfolio

The most immediate housing related risks for most state chartered banks have appeared in the banks' bond portfolios. As has been widely reported, many of these securities were creatively structured, questionably rated, and lacked a tremendous amount of transparency. This situation presents serious issues which Wall Street, the ratings agencies, and the regulators must address. However, we hold bank management responsible for the investments they make and the required due diligence. In this regard, we applaud the FDIC's pursuit of a "back to basics" approach to examiner training, expectations of bank management and supervision. While much has changed in banking since the last significant downturn in banking, many of the fundamentals of bank safety and soundness supervision continue to be very relevant to the industry and examiners.

Commercial Real Estate

Weakness in the commercial real estate sector is emerging in certain areas of the country. This is a cyclical change in the market following a period of tremendous growth. Concern over concentrations of commercial real estate loans have been expressed by the bank regulators for the last several years. This is a situation which will demand significant regulatory resources as the market adjusts.

Student Loans

Investors' lack of confidence in bond ratings, bond insurers and collateral valuation of asset backed securities has led to failures in the auction rate certificate market. One of the primary sources for funding of secondary markets for federally guaranteed and private student loans is the auction rate certificate market. The current lack of investor interest in these markets will curtail funding of student loans this year. In my state the primary secondary market for student loans, Iowa Student Loan Liquidity Corporation (ISL) is a non-profit corporation which buys and services student loans from banks, thrifts and credit unions. ISL is working with financial institutions to solve this funding problem, but it will be challenging to replace the auction rate certificate funding.

Agricultural Sector

My fellow state supervisors and I are closely watching the agricultural sector. Current agricultural conditions are reminiscent of conditions experienced in the 1970s, which led to the economic and financial collapse of the 1980s. Currently, we are witnessing a combination of high oil and high commodity prices. The value of farm land is directly correlated to the prices of commodities grown on it. The dramatic increase of farmland value in the last few years makes the agricultural sector look strong. In the future, should the price of corn, soybeans, and other commodities decrease, the price of farm land would most likely also fall. If there has been too much leveraged or loaned against the inflated value of farm land, the bubble will burst and we will once again experience an economic crisis similar to that of the 1980s. The continuing disappearance of manufacturing jobs from the rural mid-west will make it harder to recover from a future agricultural slump.

Reverse Mortgages

Many of my colleagues have expressed concerns regarding the marketing push and growing popularity of reverse mortgages. These products can be very beneficial for some borrowers, but they are ripe for consumer abuse and fraud and could present some significant long-term accounting and valuation issues. CSBS has developed a one-day seminar designed to help state mortgage examiners learn about the fast-developing reverse mortgage market. It will feature a practical industry perspective including hands-on exercises and presentations from the Department of Housing and Urban Development (HUD), the Office of Thrift Supervision (OTS) and state regulators. A case study will help participants learn how to examine a reverse mortgage loan file. This program is designed for all levels of state mortgage regulators and examiners from those responsible for developing and implementing regulations and policies to those performing examinations of reverse mortgage originators and lenders.

Reevaluation of Basel II in a Crisis

As state and federal regulators work together to deal with problems in credit markets and evaluate emerging risks, we are very fortunate to enter this cycle following a period of record earnings and strong capital ratios. As a part of our current policy deliberations, we must take stock of our current capital framework and the direction we are headed with the implementation of the advanced approaches of Basel II. With significant questions being raised about the models utilized by the ratings agencies and concerns regarding the transparency of institutions which utilize Structured Investment Vehicles (SIVs), state supervisors believe it is critical to evaluate Basel II in the context of the current crisis. We need to be confident the banking industry will be as strong going into the next crisis after operating under the Basel II framework and that there will be sufficient transparency in our largest institutions to make this assessment.

Testing Supervision and Bank Management in an Economic Downturn

We have been extremely fortunate to have experienced a very long and broad period of growth and record earnings in the banking industry. However, one of the consequences is that a generation of bankers and examiners has been untested in a stressed economy. While there is no teacher like experience, during this current environment of deteriorating conditions in financial institutions, this lack of experience needs to be addressed by both regulators and financial institutions with appropriate oversight from more experienced management.

Market cycles are inevitable. Regulators do their best to identify emerging risks and weakness in our financial system. As a result, the risk management practices and tools of the industry continue to evolve. However, as our systems of regulations and supervisory methods evolve we need to step back and examine whether they continue to provide clear rules and expectations for the industry and regulators, and transparency for investors. These principles have traditionally been the hallmark of our banking system. For this reason I would reiterate my concerns about the direction of bank supervision and determinations of capital adequacy that rely heavily on assumption driven modeling. While financial models can be a helpful tool in measuring and identifying risk they must do so in ways that are understandable to bank management and examiners. And they cannot replace the experienced human judgment of a banker or a regulator.

The Residential Mortgage Market

The decline of the housing market and the resulting roiling of the capital markets have been well-publicized and documented. The causes of the crisis we are experiencing result from the foundations of our financial system, not just our mortgage origination system, and all regulators must reflect on how we can collaborate to address the weaknesses of our system that this crisis has exposed.

State and federal financial regulators have developed—and continue to develop—guidelines, best practices, and regulations to prevent abusive lending practices in the mortgage industry. Congress and state legislatures have passed or are debating legislative initiatives designed to change industry standards and protect consumers. An array of market participants—regulators, attorneys general, and servicers, among them—are engaged in loan modification strategies to help homeowners avoid foreclosure.

CSBS contends that an enhanced regulatory regime for the residential mortgage industry is absolutely necessary to ensure legitimate lending practices, provide adequate consumer protections, and to once again instill both consumer and investor confidence in the housing market. The vast majority of mortgage bankers, brokers, and lenders are honest, law-abiding mortgage providers. And many of the problems we are experiencing are not the result of “bad actors” but rather bad assumptions by the architects of our modern mortgage finance system. Enhanced supervision and industry practices can successfully weed out both the bad actors and address the bad assumptions. If regulators and the industry don’t address both causes we will only have the veneer of reform and we risk repeating our mistakes.

One lesson we should learn from this crisis is that nationalization of supervision and applicable law is not the answer. For those who were listening, the states provided plenty of warning signs of the problems to come. The flurry of state predatory lending laws and laws to create new regulatory structures for lenders and mortgage brokers that banks and the capital markets were funding were indicators that things were not right in our mortgage lending industry. To respond to this lesson by eliminating the early warning signs that the states provide seems ironic. It is in effect, providing regulatory relief to those that created the problem. Just as checks and balances are a vital part of our democratic government, they serve an equally important role in our financial regulatory structure. The United States boasts one of the most powerful and dynamic economies in the world because of those checks and balances, not despite them.

Most importantly, it serves the consumer interest that the states continue to have a role in financial regulation. While CSBS recognizes that the mortgage market is a nationwide industry that has international implications ultimately, local economies and individual homeowners are most affected by mortgage market fluctuations. State regulators must remain active participants in mortgage supervision because of our knowledge of local economies, and our ability to react quickly and decisively to protect consumers. To that end, the states, through CSBS and ARMR, are working to improve mortgage supervision through enhanced cooperation and coordination with one another and our federal regulatory counterparts.

This Committee held a hearing one year ago on turmoil in the mortgage market. North Carolina Commissioner of Banks Joe Smith testified on behalf of CSBS during that hearing and reported on the initiatives state regulators had developed to protect consumers and improve market practices. I would like to provide you with an update on the progression of these initiatives over the past year.

State Initiatives to Improve Supervision of the Residential Mortgage Industry

<u>CSBS-AARMR Nationwide Mortgage Licensing System (NMLS)</u>

Last year, Commissioner Smith told you of our plan to launch a nationwide licensing system to improve the efficiency and effectiveness of the U.S. mortgage market, to enhance consumer protection, to fight mortgage fraud and predatory lending, to increase accountability among mortgage professionals, and to unify and streamline state license processes for mortgage lenders and brokers.

I am pleased to report that the CSBS-AARMR Nationwide Mortgage Licensing System (NMLS) went live, as scheduled, on January 2, 2008. This system is more than a database. It serves as the foundation of modern mortgage regulation by providing transparency for regulators, the industry, investors, and consumers. Seven inaugural participating states, including my home state of Iowa, started using the system on January 2. Eight additional state agencies will being using the System in July 2008, and four to six state agencies will join the NMLS on a quarterly basis through 2009. To date, 42 state agencies representing mortgage regulators in 40 states have signed the Statement of Intent, indicating their commitment to participate in the NMLS. Eventually, we expect all 50 states to transition onto the System. I have attached, as Exhibit A, a map which indicates when states will begin using the NMLS.

In the first two months of operation, NMLS:

- Is currently managing over 1,600 company mortgage licenses;
- Is currently managing over 800 branch licenses; and
- Is currently managing over 2,000 loan officer licenses.

The NMLS will change the world of mortgage supervision. The System creates a single record for every state-licensed mortgage company, branch, and individual that is shared by all participating states. This single record allows companies and individuals to be tracked across state lines and over any period of time. Additionally, consumers and the industry will eventually be able to check on the license status and history of the companies and individuals with which they wish to do business.

The NMLS provides profound benefits to consumers, state supervisory agencies, and the mortgage industry. Consumers will have access to a central repository of licensing and publicly adjudicated enforcement actions. Each state regulatory agency will retain its authority to license and supervise, but the NMLS eliminates unnecessary duplication and implements consistent standards and requirements across state lines. Honest mortgage bankers and brokers will benefit from the removal of fraudulent and incompetent operators, and from having one central point of contact for submitting and updating license applications.

The NMLS also provides the regulatory foundation contained in the comprehensive mortgage reform legislation, H.R. 3915, passed by the House and in S. 2595, the "Secure and Fair Enforcement for Mortgage Licensing Act of 2008," recently introduced by Senators Feinstein and Martinez.

Pilot Programs with Federal Regulatory Agencies

Late in 2007, CSBS, the Federal Reserve, the OTS, and the Federal Trade Commission (FTC) engaged in a pilot program. Under this program, state examiners will join examiners from the Fed, OTS, and FTC to conduct simultaneous examinations of mortgage companies whose separate charters cross federal and state jurisdiction. We applaud the Federal Reserve, and Governor Kroszner in particular, for their leadership on this program. This pilot is truly the model for coordinated state-federal supervision.

Uniform Standards for Testing and Education

Also during last year's hearing, Commissioner Smith introduced the development of education and testing requirements for mortgage professionals. CSBS and AARMR are spearheading a regulatory/industry cooperative project called the Mortgage Industry Nationwide Uniform Testing and Education Standards (MINUTES). The project involves regulatory representatives from five states (Louisiana, North Carolina, Oregon, Pennsylvania, and South Carolina) cooperating on a task force with representatives from three mortgage industry associations (MBA, AFSA and NAPMW).

The initiative, begun in early 2007, provides model language establishing uniform standards for mortgage professional testing and education, and streamlines the process for licensees to comply with these standards. MINUTES will ensure that licensed mortgage providers and their loan originators are held to the same standards and expectations, regardless of the state in which they make loans. Once implemented, MINUTES will provide an Internet portal connecting state approved educators with mortgage professionals and then connecting testing and education satisfaction with the Nationwide Mortgage Licensing System for a seamless interface of licensing and continuing education requirements. Users of the NMLS will be able to identify mortgage professionals who have successfully passed a test and are current on their education requirements for each state in which they are licensed to conduct business.

CSBS-AARMR Guidance on Nontraditional Mortgage Product Risks

In October 2006, the federal financial agencies issued the *Interagency Guidance on Nontraditional Mortgage Product Risks* which applies to all banks and their subsidiaries, bank holding companies and their non-bank subsidiaries, savings associations and their subsidiaries, savings and loan holding companies and their subsidiaries, and credit unions. Recognizing that the interagency guidance did not apply to those mortgage providers not affiliated with a bank holding company or an insured financial institution, CSBS and AARMR developed parallel guidance.

CSBS and AARMR issued parallel guidance in November 2006 to apply to state-supervised residential mortgage brokers and lenders. Over the past year, we have continued to encourage state agencies to adopt the guidance in some form. As of today, March 4, 2008, 44 states plus the District of Columbia have adopted the guidelines developed by CSBS and AARMR. Ultimately, we expect all 50 states to adopt the guidance.[3]

[3] To track state adoption of the CSBS-AARMR *Guidance on Nontraditional Mortgage Product Risks*, go to http://www.csbs.org/Content/NavigationMenu/RegulatoryAffairs/MortgagePolicy/NTM_State_Implement.htm.

CSBS-AARMR-NACCA Statement on Subprime Mortgage Lending

At last year's hearing, the federal agencies had proposed the *Interagency Statement on Subprime Mortgage Lending*. Like the *Interagency Guidance on Nontraditional Mortgage Product Risks,* the Subprime Statement applied only to mortgage providers associated with an insured depository institution. Therefore, CSBS, AARMR, and the National Association of Consumer Credit Administrators (NACCA)[4] developed a parallel statement that is applicable to all mortgage providers.

Released in July 2007, the Subprime Statement has been adopted by 33 states and the District of Columbia. Again, we expect all 50 states to adopt the Statement[5] to encourage seamless and consistent supervision of the mortgage industry.

CSBS believes the Nontraditional Mortgage Product Guidance and the Subprime Statement strike a fair balance between encouraging growth and free market innovation and draconian, stern restrictions.

AARMR-CSBS Model Examination Guidelines (MEGs)

In the past year, CSBS has also initiated several new projects aimed at improving supervision of the residential mortgage industry.

For example, AARMR and CSBS have developed state Model Examination Guidelines (MEGs) for field implementation of the *Guidance on Nontraditional Mortgage Product Risks* and the *Statement on Subprime Mortgage Lending*.

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[4] The National Association of Consumer Credit Administrators represents the officials of the states and territories of the United States of America and of the Dominion of Canada, or their associates, who, by law, are vested with authority and duty to administer laws which require regulation or supervision of consumer credit agencies in the United States of America and the Dominion of Canada.
[5] To track state adoption of the CSBS-AARMR-NACCA *Statement on Subprime Mortgage Lending*, go to http://www.csbs.org/Content/NavigationMenu/RegulatoryAffairs/MortgagePolicy/Sub_prime_State_Impl.htm.

Released on July 31, 2007, the MEGs enhance consumer protection by providing state regulators with a uniform set of examination tools for conducting examinations of subprime lenders and mortgage brokers. In addition, the MEGs were designed to provide consistent and uniform guidelines for use by lender and broker in-house compliance and audit departments to enable them to conduct their own "regulatory style" review of their subprime lending practices. These enhanced regulatory guidelines present a new and evolving approach to mortgage supervision.

To prepare state examiners, as well as industry compliance personnel for an approach designed specifically for subprime lending platforms, CSBS and AARMR released a comprehensive Internet based MEGs User School on March 1. This school was developed to give both regulators and industry the tools needed to comprehensively examine the institution under the MEGs.

Nationwide Cooperative Protocol and Agreement for Mortgage Supervision

In December of last year, CSBS and AARMR launched a Nationwide Protocol and Agreement for Mortgage Supervision to assist state mortgage regulators by outlining a basic framework for the coordination and supervision of Multi-State Mortgage Entities (those institutions conducting business in two or more states). The goals of this initiative are to protect consumers; to ensure the safety and soundness of the institutions; to identify and prevent mortgage fraud; to supervise in a seamless, flexible and risk-focused manner; to minimize regulatory burden and expense; and to foster consistency, coordination and communication among state regulators.

In order to achieve these goals, the states agree to:

- Establish a committee comprised of state regulators to coordinate supervision;

- Determine which Multi-State Mortgage Entities will be covered by the initiative;
- Develop a supervisory program tailored to each Multi-State Entity's condition and risk profile; and
- Participate in and support the effective implementation of the supervisory program.

To date, twelve states have signed the agreement with an additional eleven states indicating a commitment to join. CSBS and AARMR expect to sign all state regulators to the protocol and agreement in 2008.

State Efforts Regarding Foreclosure Prevention

The above initiatives developed by the states will do much to improve regulation of the mortgage market. Of course, no regulatory scheme is perfect, but by enhancing coordination between states and the federal regulatory agencies, by encouraging the mortgage industry to police itself, and by increasing transparency in the mortgage market, we hope to prevent some of the more egregious fraudulent and damaging practices that contributed to the current decline of the mortgage market. In addition to our regulatory efforts, state officials have also been very active in addressing increasing foreclosures.

State Foreclosure Prevention Working Group/Loss Mitigation

State banking and mortgage regulators have been working together formally with State Attorneys General during the past year to develop a comprehensive strategy to address increasing foreclosure rates. The partnership between state regulators and attorneys general is long-standing, and had led to the largest consumer protection settlements in our nation's history, including most recently the $325 million settlement with Ameriquest.

In July 2007, representatives of 37 state attorney general offices and state banking regulators gathered in Chicago for a summit meeting on the growing crisis in subprime mortgage foreclosures. The news was alarming: nearly two million subprime mortgages with an adjustment feature, such as hybrid ARMs and option ARMs, were set to adjust between the latter part of 2007 and the end of 2008. These loans had been made with an expectation that borrowers could refinance before the rate adjusted, an expectation that is no longer justified in light of the rapid decline in home values. Many of these loans had been made based on incorrect state incomes and/or inflated appraisals, with little if any underwriting having been done to assure that borrowers could afford to make monthly payments after the initial "teaser" rate had adjusted upward. The likely outcome of this situation was an unprecedented flood of foreclosures.

A State Foreclosure Prevention Working Group, chaired by Iowa Attorney General Tom Miller, formed out of this summit meeting, to gather more information and to attempt to work with participants in the subprime mortgage industry to find ways to modify loans on a mass scale so that as many borrowers as possible could retain their homes with affordable mortgages. The Working Group consists of representatives of the attorneys general of 11 states (Arizona, California, Colorado, Iowa, Illinois, Massachusetts, Michigan, New York, North Carolina, Ohio, and Texas), two state banking departments (New York and North Carolina), and CSBS.

Since September, this Working Group has met with representatives of the 20 largest servicers of subprime mortgages. Collectively, these top 20 companies service approximately 93 percent of the nation's subprime loans. The Working Group has asked the servicers to work collaboratively to start identifying and implementing collective and consistent solutions to prevent foreclosure. The Working Group's guiding principle is simple: any solution must be in the interests of both the borrower and the investor. There are ample opportunities for improvement that will lead to benefits for investors and homeowners alike.

Beginning in November of last year, the State Foreclosure Prevention Working Group collaborated with industry and federal regulators to develop a uniform data reporting format to collect data to measure the extent of the foreclosure problem and the servicers' efforts to respond to it. However, we were frustrated that some federally regulated institutions refused to comply with our request saying that the OCC had instructed them not to share information with state regulators and law enforcement officials. As state officials, CSBS believes that objective data is necessary to make informed policy decisions and to promote initiatives that could reduce foreclosures. In addition, we believe the public has a right to know how servicers are managing the foreclosure crisis. On February 7 2008, the State Foreclosure Prevention Working Group issued the "Analysis of Subprime Mortgage Servicing Performance" data report.[6] The key findings are:

1. **Seven out of ten seriously delinquent borrowers are not on track for any loss mitigation option.** The lack of interaction between mortgage servicers and homeowners remains a major problem. While servicers have developed creative outreach efforts and increased staffing, the data shows a large gap between the number of homeowners needing loss mitigation and the number currently receiving

[6] The "Analysis of Subprime Mortgage Servicing Report" can be viewed at: http://www.csbs.org/Content/NavigationMenu/Home/StateForeclosurePreventionWorkGroupDataReport.pdf.

assistance. The data suggests that a rising number of loan delinquencies are outpacing the increase in loss mitigation efforts.

2. **Servicers have increased their use of loan modifications and other home retention options.** For those delinquent homeowners in contact with servicers, almost half (45%) are working toward a loan modification. Servicers are increasing their use of longer-term changes to the mortgage loan versus their earlier reliance on short-term repayment of forbearance agreements.
3. **Payment resets on hybrid ARMs have not *yet* been a driving force in foreclosures.** A significant percentage of subprime adjustable rate loans are delinquent before they experience payment shock from their first adjustment, reflecting weak underwriting or fraud in the origination of the loan. With so many homeowners struggling to stay afloat prior to rate resets, we need to act quickly to address these hybrid ARM loans before the payment shock due to the rate reset triggers further foreclosures.
4. **Homeowners are helping themselves.** Most delinquent loans resolved in October 2007 occurred due to the homeowner catching up on back payments. As of October, actions by homeowners, not servicers, have prevented the most foreclosures.
5. **The refinance option has nearly evaporated.** Historically, serial refinancing was the primary way that the mortgage industry and homeowners managed delinquencies in subprime loans. Despite recent interest rate cuts, the mortgage industry will not be able to refinance its way out of this crisis absent dramatic changes in available loan products or a reversal in home price declines.

The State Working Group anticipates future reporting on the data collected from servicers. The Working Group will continue to collect monthly data from servicers in order to provide public information on trends in the servicing industry as we move through the foreclosure crisis. Finally, the Working Group will continue to work directly with the top 20 subprime servicers to remove barriers to increasing the number of loan modifications.

It is my sense that many servicers are making positive efforts to avert foreclosures, but that we are still losing the larger battle to stop unnecessary foreclosures and stem the foreclosure crisis. More must be done to assist those Americans who are fighting to save their homes.

Individual State Efforts to Reduce Foreclosures

In addition to the multi-state joint effort of the State Foreclosure Prevention Working Group, individual states are taking taken the initiative to reduce foreclosures through various and evolving efforts, such as:

- Establishing foreclosure prevention hotlines, such as those in my home state of Iowa, as well as Colorado and Massachusetts;
- Hosting “road shows” of servicers in hard-hit economic areas, such as Ohio and Michigan, to promote face-to-face contact between servicers and struggling homeowners;
- Meeting directly with servicers in states such as California, Ohio, and Texas, to determine if there are solutions to local problems;
- Foreclosure moratoriums to deal with abusive lending practices of particular lenders; and

- Enactment of legislation to improve servicing practices.

Conclusion

The banking industry is eternally cyclical. A downward turn in banking always reveals bad practices and structural flaws of both institutions and supervision. As regulators we must, with an unbiased eye, collectively and collaboratively acknowledge and address the weaknesses that a turn in the industry identifies. Our highly diverse financial system is the envy of the world and allows our markets to be flexible and responsive. Thanks to our decentralized regulatory system, our financial institutions are competitive internationally and locally. However regulators and legislators address the current market failings, it should be in a way that preserves the diversity of financial institutions and supervision that has made our economy both nimble and strong.

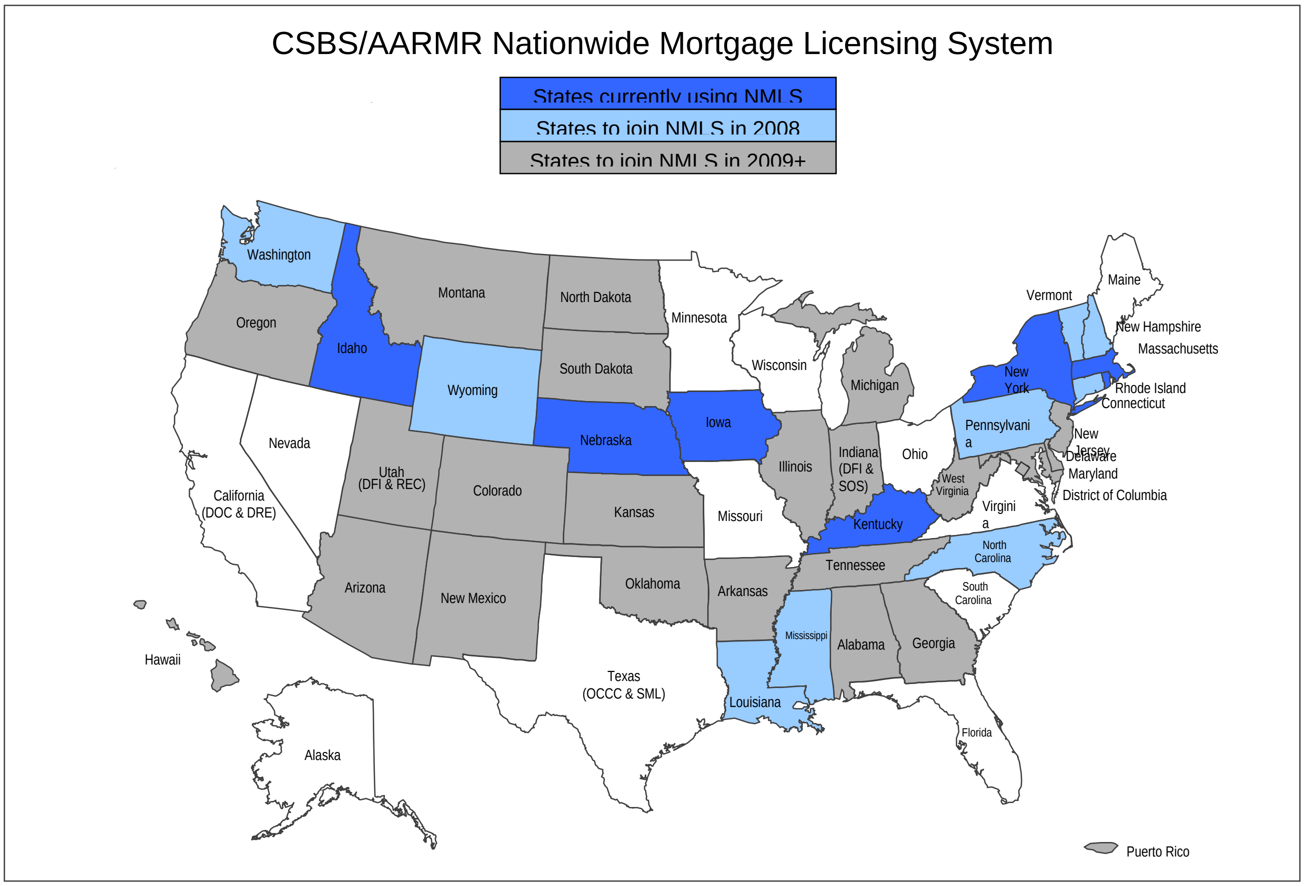
We recognize that our regulatory structure at both the state and federal level is sometimes complex for both the industry and consumers to navigate. There is a need for improved coordination and cooperation among functional regulators. CSBS has been actively engaged in efforts to enhance coordination as we all work to develop a system of supervision that ensures safety, soundness, and consumer protection, but still provides economic stability and industry innovation.

CSBS looks forward to continuing to work with the federal regulators and Congress to address the needs and regulatory demands of an ever evolving financial system in an environment that fosters the strongest economy possible while protecting consumers, minimizing regulatory burden, and ensuring access to the broadest range of financial opportunity.

I thank you for the opportunity to testify today, and look forward to any questions you may have.

Appendix

Exhibit A—Schedule of State Participation in the CSBS/AARMR NMLS



State Regulatory Registry LLC, January 2008