

**Statement of**  
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**Before the**

**Subcommittee on Financial Institutions and Consumer Credit**

**and**

**Subcommittee on Oversight and Investigations**

**Of the**

**Committee on Financial Services**

**U.S. House of Representatives**

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Chairman Capito, Chairman Neugebauer, Ranking Member Maloney, Ranking Member Capuano, and members of the Subcommittees, I appreciate the opportunity to appear this morning on behalf of the OCC to discuss issues related to mortgage servicing.

My testimony focuses on three areas. First, my written statement describes the examinations by the OCC and other federal banking agencies of defects in foreclosure processes at the 14 largest federally regulated mortgage servicers.

Although these examinations found that the loans in the sample examined were seriously delinquent, the exams also found serious deficiencies – of different degrees – at each of these servicers in the areas of foreclosure governance, foreclosure document preparation, and the oversight of third party service providers.

These deficiencies constitute unsafe and unsound banking practices. To address them, the OCC and the other banking agencies issued Cease and Desist Orders.

The sample of foreclosures reviewed in the exams was adequate to expose serious flaws in banks' foreclosure processes, as a sample, it could not, of course, quantify the individual borrowers that might have suffered financial harm due to these defects. That's why the Orders require a comprehensive and independent review of foreclosure actions during a two-year "look back" period.

The independent review will seek to identify financially harmed borrowers who had a pending or completed foreclosure in 2009 or 2010 through two distinct means: 1) Notice and outreach to those borrowers of their right to file a complaint and to have their complaint reviewed by an independent consultant; and 2) a targeted review of the loans of borrowers who are in identifiable high risk segments – which will provide an additional opportunity to detect borrowers who suffered financial harm.

The Orders require that the servicers submit detailed Action Plans to revamp major aspects of their mortgage servicing and foreclosure operations. For example, Action Plans are required to implement comprehensive revisions of mortgage servicing, loan modification and foreclosure processes.

The Orders also address the elimination of dual tracking, and require the establishment of a single point of contact system to ensure that borrowers can contact a live person throughout the process.

The second portion of my written statement discusses the relationship between implementation of our enforcement Orders and the separate negotiations that are being conducted by other authorities. Most notably, the Department of Justice is coordinating settlement discussions involving DOJ, a group of other federal agencies and state attorneys general.

The scope of these discussions includes issues outside the scope of our Orders, but it also includes areas of mortgage servicing and foreclosure procedures that overlap with the scope of Action Plans required under our orders.

Other initiatives are underway that will also affect mortgage servicing standards. In particular, the newly-announced GSE delinquency management and default prevention standards will have a substantial impact on servicing practices, since those standards, for the foreseeable future, will govern an overwhelming portion of the mortgage market.

These different initiatives will subject servicers to more rigorous standards and provide borrowers greater protections. But they also raise the prospect of multiple, inconsistent standards.

We have strongly urged the value of achieving a common set of standards whereby servicers can satisfy not only the terms of any settlement agreements but other applicable requirements as well, such as the GSE standards. In order to help achieve this result, in consultation with DOJ, we have adjusted deadlines for servicers' submission of various Action Plans required under our Orders to facilitate synchronization with the DOJ-led settlement efforts.

In the final portion of my testimony, I discuss the current interagency effort to develop comprehensive and uniform servicing standards. The goal here is to establish rigorous, uniform standards for responsible servicer conduct that reach beyond the servicers covered by the current enforcement actions. It will be critically important to ensure that any standards that are adopted apply to and are implemented by all firms engaged in mortgage servicing – not just federally regulated depository institutions, and that there is strong oversight of all servicers' compliance.

I appreciate the opportunity to appear before the Subcommittees this morning to discuss these important topics, and I look forward to addressing your questions. Thank you.