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Michael Barr, *Implementing Dodd-Frank To Fully End* 'Too Big To Fain', national Mortgage News, August 30, 2010.

To fully end "too-big-to-fail" we need to make our financial system safer for failure. We cannot rely on the hope of perfect foresight-whether by regulators, or by managers of firms, private sector gatekeepers, or other market participants. Financial activity involves risk, and no one will be able to identify all risks or prevent all future crises.

However, robust capital, leverage and liquidity requirements can prevent the build-up of risk, ex ante, and insulate the system from unexpected shock events, ex post. Imposing higher prudential standards on the largest, most interconnected firms will require them to internalize the risks they impose on the system by virtue of their size and complexity. The largest and most interconnected firms cause more damage to the system when they fail, so they need to hold more capital against risk. That is based on a principle of fairness and also of economic efficiency. It internalizes their costs of failure and provides incentives for firms to limit their size and reduce their leverage.

Internationally, we are working to raise capital requirements so that financial firms can withstand future crises as severe as the one we have just gone through, and do so without government support. In the Basel III negotiations, we are pushing hard to set minimum capital ratios at a level that will represent a significant increase in firms' requirements. These new requirements include the creation of a capital conservation buffer above the minimums, which if breached will restrict firms' ability to pay dividends or buy back stock. Such restrictions will help shore up a firm's capital base before it reaches a point of no return.

Not only are we raising the ratios, but just as importantly, we are raising the standards on the quality of capital that underlie them. The new capital requirements will focus on common equity, excluding other liabilities that did not act as a buffer to absorb losses in the crisis. There will be strict limits on minority interests, as well as on the aggregate contribution of investments in other financial institutions, mortgage servicing rights and deferred tax assets.

In addition to increasing the quality of the capital that firms hold, we are increasing the capital required for banks' riskiest activities, such as their trading positions and their counterparty credit exposures. Capital calculations for trading exposures will now have to be based on stressed market conditions, and the charges for securitization exposures will be increased substantially. In both derivatives and secured lending transactions, firms will now also be subject to a capital charge for losses associated with a deterioration in the credit worthiness of their counterparties.

Under Basel III we will also be introducing a new, internationally applied, leverage ratio requirement that, for the first time, includes firms' off balance sheet commitments and exposures.

The combination of these changes-higher capital ratios, new capital requirements, tougher and more extensive measurement standards-will help ensure that firms have sufficient capital to weather the next crisis.

In addition to new capital requirements, we will be instituting explicit quantitative liquidity requirements for the first time, to ensure that financial firms are better prepared for liquidity strains. Under the new rules, firms will have to hold enough highly liquid assets to meet potential net cash outflows over a 30-day stress scenario. Through the Basel Committee we are also working on developing a liquidity requirement that will require a minimum amount of stable funding over a one year time period, relative to a firm's assets, commitments and obligations. These liquidity requirements will be crucial in helping to mitigate severe strains like those that we saw on the financial sector at the time of the collapse of Bear Stearns and Lehman Brothers during 2008.

Taken together, these heightened standards will provide positive incentives for major financial firms to reduce their size, leverage, complexity and interconnectedness.

The financial crisis has shown that a narrow supervisory focus on the safety and soundness of individual firms can result in a failure to detect and thwart emerging threats to financial stability that may cut across many institutions or have other systemic implications. Under these reforms, federal financial regulators will have the responsibility to supervise our major financial firms in a manner that is designed to protect overall financial stability. The federal financial regulators will engage in a searching review of the bank and nonbank subsidiaries of our major financial firms.

Regulators must supplement existing approaches to supervision with mandatory "stress tests," credit exposure reporting and "living wills," so that they can adequately assess the potential impact of the activities and risk exposures of these firms on each other, on critical markets, and on the broader financial system.

When, despite reforms, a major financial firm fails, the government simply must have the necessary tools to wind-down a failing financial firm without exposing taxpayers to losses and without pushing the economy to collapse. While we have long had a tested and effective system for resolving failed banks, there was no effective legal mechanism to resolve a large nonbank financial institution or bank holding company. The Dodd-Frank Act fills this gap in our legal framework by providing a emergency tool modeled on our existing system under the Federal Deposit Insurance Act-a tool that replaces the untenable choice between taxpayer bailouts and market chaos. Resolution authority is a linchpin of ending "too-big-to-fail."

Both our financial system and this crisis have been global in scope. So our solutions have been and must continue to be global. International reforms must support our efforts at home, including strengthening the capital and liquidity frameworks, improving oversight of global financial markets, coordinating supervision of internationally active firms and enhancing crisis management tools. We have not waited for the international community to act before building a new foundation in the Dodd-Frank Act, and we will not accept an international race to the bottom on regulatory standards.

These reforms will help us restore market discipline to a financial system distorted by the moral hazard associated with "too-big-to-fail." And that process is already underway.

Let me give you a brief introduction to the steps taking place over the next several months.

We are already hard at work. The agencies involved in implementing financial reform are in the process of establishing timelines for moving forward on the scores of studies, regulations and other regulatory actions required by the Dodd-Frank Act. In some critical areas, the agencies are already drafting proposed rules for public comment.

We are going to move quickly to begin shaping reforms of the derivatives market. In this process, we will work with the Fed, the SEC and the CFTC to develop specific quantitative targets and timelines for moving the standardized part of the over-the-counter derivatives business onto central clearing houses. And we must accelerate the international effort to put in place common global standards for transparency, oversight and the prevention of manipulation and abuse of these critically important markets.

We're going to stand-up the Office of Financial Research, which in the coming months will work closely with regulators and market participants to assess the financial data reporting needs and challenges for better monitoring of firm-specific and systemic risk, to streamline current regulatory data reporting requirements imposed on financial firms, to improve data sharing among regulators, and to enhance the utility of existing data sources.

As I mentioned, we are now finalizing an international agreement that will require financial firms to hold both more and higher quality capital than they did before the crisis. Those are some of the key areas regarding prudential reforms where we-the Treasury, the financial regulators- will be focused in the coming months. I'd also like to briefly highlight our work on consumer protection.

We are moving quickly to give consumers simpler disclosures, so that they can make better choices, borrow more responsibly, and compare costs.

For example, in place of the two separate, inconsistent and overly complicated federal mortgage disclosure forms that borrowers receive today, there should be one clear, simple, user-friendly form.

In addition, we will be inviting public comment on new national underwriting standards for mortgages, so that we can begin to shape the reforms of the mortgage market.

And we are working quickly to get the CFPB up and running, to consolidate rule-making, supervision and enforcement responsibilities that today are split, inefficiently and ineffectively, among seven different regulatory agencies.

On all fronts, we are committed to moving with speed, with transparency, and with a commitment to ensuring that our financial system remains the most competitive financial system in the world.

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Michael Barr, *Another Untold Story of Financial Reform: Credit Report Reform*, The White House Blog, July 7, 2010 6:00 AM ET.

For many people, a credit report is the most important document in their financial life. It helps determine everything from whether they can get a loan, lease a car, find a job, purchase insurance, or even buy monthly cable television or cell phone service.

Despite these far-reaching impacts, credit reports are sometimes riddled with errors. And those errors can have a real effect on your financial future. Something as simple as having the same name as another individual who failed to pay their bills on time can prevent you from receiving a loan or the lower interest rate for which you're eligible.

Unfortunately, trying to correct those errors can often become a bureaucratic nightmare. Many consumers complain that they cannot get credit report mistakes fixed, or that errors are removed only to reappear later, sometimes when credit portfolios are sold.

This isn't a small problem. Consumers have filed almost 150,000 complaints about their credit reports in the last four years, and even conservative estimates suggest that 6 million Americans have errors on their reports serious enough to result in a denial of credit.

The Dodd-Frank financial reform bill seeks to empower consumers and address these issues through stronger oversight and regulations. Under this legislation:

- The new Consumer Financial Protection Bureau that the Dodd-Frank bill creates would have authority to conduct regular examinations of large credit bureaus to evaluate their compliance with basic federal laws such as the Fair Credit Reporting Act.
- Consumers will have the right to get their credit scores for free if they are turned down or charged a significantly higher price for credit than most other consumers because of their scores. This is on top of existing federal law that allows consumers to obtain their detailed consumer reports for free each year to check for inaccurate items and to purchase their credit scores at a reasonable price.
- The Consumer Financial Protection Bureau is required to perform a study and report to Congress on variations in the credit scores that are sold to creditors and to consumers by the three large national consumer reporting agencies to determine whether such variations disadvantage consumers.

These common sense reforms will help protect and empower consumers. Given the important role that credit reports play in all of our financial futures, these initiatives have the capacity to make a real, positive impact in the lives of everyday Americans.

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Michael Barr, *Open Forum: Loan Mods Ramping Up Now,* National Mortgage News, October 5, 2009.

There are clear signs that the incentives offered under the Home Affordable Modification Program are having a substantial effect.

* Over 45 servicers have signed up for the Home Affordable Modification Program, including the five largest. Between loans covered by these servicers and loans owned or guaranteed by the GSEs, more than 85% of loans in the country are now covered by the program.

* These participating servicers have extended offers on over 570,000 trial modifications.

* Over 360,000 trial modifications are already underway.

On March 4, just two weeks after the Feb. 18 announcement of MHA, the administration, worked with the banking regulators, HUD, and the Federal Housing Finance Agency to publish detailed program guidelines for HAMP. These guidelines outlined a standard for the industry to follow in modifying mortgages to make them affordable and sustainable.

On April 28, the administration announced additional details related to the Second Lien Program, which will help to provide a more comprehensive affordability solution for borrowers by addressing their total mortgage debt. In addition, this announcement included provisions to strengthen the Hope for Homeowners Program, administered by HUD, which provides additional relief for borrowers with mortgage balances greater than the current value of their homes. In August, we released the supplemental directive providing specific implementation guidelines for the Second Lien Program. Second-lien servicers covering the majority of second liens in the country have committed to participate in the Second Lien Program.

On May 14, we announced additional details related to the Foreclosure Alternatives Program, which will provide incentives for short sales and deeds-in-lieu of foreclosure where borrowers are unable to complete the HAMP modification process. We also announced additional details on Home Price Decline Protection Incentives, designed to provide incentive payments for modifications to partially compensate lenders and investors for home price declines. As of Sept. 1, Home Price Decline Incentive payments will become operational, and begin to be included in NPV calculations, allowing more borrowers in the geographic areas hardest hit by home price declines to obtain modifications.

The administration's broad housing plan, the Making Home Affordable Plan, also includes broad support for the GSEs to support mortgage refinancing and affordability across the market.

On March 4, the administration increased its funding commitment to Fannie Mae and Freddie Mac to ensure the strength and security of the mortgage market and to help maintain mortgage affordability generally. To this end, Treasury expanded its commitment to the GSEs under the Preferred Stock Purchase Agreements by $200 billion. The Treasury Department also continues to purchase Fannie Mae and Freddie Mac mortgage-backed securities to promote stability and liquidity in the marketplace.

In addition, the administration increased refinancing flexibilities for the GSEs, providing more homeowners with an opportunity to refinance to lower monthly payments. As a part of this increased refinancing flexibility, the administration launched the Home Affordable Refinance Program which expands access to refinancing for families whose homes have lost value.

Many homeowners who made what seemed like conservative financial decisions three, four or five years ago find themselves unable to benefit from the low interest rates available today because the value of their homes has sunk below that of their existing mortgages.

Originally, the Home Affordable Refinancing Program was designed to help homeowners whose existing mortgages were up to 105% of their current house value, but it has since been expanded to help those with mortgages up to 125% of current value.

Overall, the GSEs have refinanced more than 2.8 million loans since the announcement of the administration's comprehensive housing plan.

The Home Affordable Modification Program is built around three core concepts.

First, the program focuses on affordability. Building on the insights of chairwoman (Shelia) Bair of the FDIC, it is designed to reduce mortgage payments to an affordable level based on a borrowers' gross monthly income. Every modification under the program must lower the borrower's monthly mortgage payment to 31% of the borrower's monthly gross income.

Second, HAMP's pay-for-success structure aligns the interests of servicers, investors and borrowers in ways that encourage loan modifications that will be both affordable for borrowers over the long term and cost-effective for taxpayers.

Third, the HAMP program establishes detailed guidelines for the industry to use in making loan modifications with the goal of encouraging the mortgage industry to adopt a sustainably affordable standard, both within and outside of the HAMP program.

In the past, a lack of agreed-upon guidelines has limited the number of loan modifications that are completed, even in instances where modifications would have been beneficial to all involved.

HAMP should help increase the number of modifications industrywide by providing standardized modification guidance to servicers and lenders.

That will be good for borrowers, good for lenders, good for mortgage lending standards and good for improved stability of our overall financial system.

The eligibility criteria for the modification program were developed specifically to help responsible American homeowners with the greatest need for assistance and to provide that assistance at the lowest cost to taxpayers.

Modifications are potentially available to all borrowers regardless of loan-to-value ratio, so borrowers can qualify no matter how much the price of their home has fallen.

The modification plan was designed to be inclusive, with a loan limit of $729,750 for single-unit properties, and higher limits for multi-unit properties. At this level, over 97% of the mortgages in the country have a principal balance that might be eligible.

Finally, because it is more effective to reach borrowers before they have missed a payment, the modification program includes additional incentives for the modification of loans where borrowers are current on their payments, but can demonstrate financial hardship or imminent risk of default.

Under HAMP's loan modification guidelines, mortgage servicers are prevented from "cherry-picking" which loans to modify in a manner that might deny assistance to borrowers at greatest risk of foreclosure. Participating servicers are required to service all loans in their portfolio according to HAMP guidelines, unless explicitly prohibited by pooling and servicing agreements, and further must make reasonable efforts to obtain waivers of any limits on participation.

Participating servicers are also required to evaluate every eligible loan using a standard net present value test.

The NPV test compares the net present value of cash flows with modification and without modification. If the test is positive, the servicer must modify the loan.

Under the program, servicers must reduce the borrower's first lien mortgage to a 31% debt-to-income ratio, meaning that the monthly mortgage payment can be no greater than 31% of gross monthly income. To reach this payment, the servicer must use a specified sequence of steps:

1. Reduce the interest rate, subject to a rate floor of 2%.

2. If the 31% DTI has not been reached, extend the term or amortization period of the loan up to a maximum of 40 years.

3. If the 31% DTI still has not been reached, forbear principal until the 31% ratio is achieved.

Principal forgiveness may be applied at any stage. Additionally, each loan must be considered for a Hope for Homeowners refinancing.

The borrowers' modified monthly payment of 31% DTI will remain in place for five years, provided the borrower remains current, and following the modification the interest rate will step up each year to a specified cap that will be fixed for the life of the loan. We believe HAMP creates new fixed-rate loans that homeowners can afford and can understand.

HAMP offers "pay for success" incentives to servicers, investors and borrowers for successful modifications. This aligns the incentives of market participants and ensures efficient expenditure of taxpayer dollars.

Servicers receive an upfront payment of $1,000 for each successful modification after completion of the trial period, and "pay for success" fees of up to $1,000 per year, provided the borrower remains current. Homeowners may earn up to $1,000 towards principal reduction each year for five years if they remain current and pay on time.

HAMP also matches reductions in monthly payments dollar-for-dollar with the lender/investor from 38% to 31% DTI. This requires the lender/investor to take the first loss in reducing the borrower payment down to a 38% DTI, holding lenders/investors accountable for unaffordable loans they may have extended.

To encourage the modification of current loans expected to default, HAMP provides additional incentive to servicers and lender/investors when current loans are modified.

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