



Five Minutes with Joseph A. Smith

Monitor, Office of Mortgage Settlement Oversight

Former state banking commissioner for North Carolina. Ex-nominee for the Federal Housing Finance Agency. Now head of the new Office of Mortgage Settlement Oversight and monitor of servicers' compliance, Joe Smith shows us what it's like to view the world from inside the landmark \$25 billion settlement.

What are your first steps in setting up the Office of Mortgage Settlement Oversight to ensure servicers comply with the terms of the agreement? We've been working to retain infrastructure, including law firms and accounting firms. I've met with the stakeholders—monitoring committees for the attorneys general and banks—in group and individual meetings. The next step is to retain what we call a Primary Professional Firm (PPF), which will act as my eyes and ears and arms and legs in reviewing the work the banks do themselves—similar to an auditor—and also to complete work plans for the banks that assess their work under the agreement. The next 90 days are full in terms of selecting the PPF and holding initial meetings with the banks.

Given your banking background, having served as general counsel and secretary of Centura bank holding company during the late 1990s through 2001, what would you say is the banks' biggest challenge in meeting the terms of the settlement? I think the challenges these banks face are challenges of size and scale. These are much larger institutions. They have to ensure the policies and procedures they implement are universal across the board. They also have to work with their IT systems and legacy asset technology solutions. The second issue to me is the way the banks comport themselves. They've been cooperative and I think we have a good relationship, but the way we structure this program is such so that the public has confidence in the integrity of the office and the way I assess the banks. That challenge relates to the way we think our way through this process and deploy our assets.

The settlement's servicing reforms apply only to the five largest servicers, but some say it's the informal makings of industry-wide standards. Do you think we need a formal, established set of national servicing standards? Yes, I do. The [Consumer Financial Protection Bureau] has been making statements about proposing additional standards. I hope this exercise will contribute to the development of those standards. I think it's fair to say that the parties to the agreement want uniform servicing standards for the industry. It's pretty clear to me that the government parties want these servicing standards, and that the banks want something like that, too. Ultimately, I think we'll have national standards—and we ought to.

How will you determine whether to work with non-compliant servicers or recommend penalties? The documents themselves allow the banks to cure any violations. So the way it works, as far as I'm concerned, relates to bank supervision. If [they] violate something, you give the banks the opportunity to make it right. If they can't cure or won't cure, then you need to consider enforcement actions and penalties. In the event that I need to take that step, I will consult with the monitoring committee of the attorneys general, and we will decide on an amount of relief or penalty. [W]e'll work together to apply the appropriate remedial action.

What guiding principles do you hope to see from the parties involved? With regard to enforcement of the settlement, I hope the banks will comply with the agreement as required. And that I will get the federal agencies involved—and they will receive information about the costs and benefits [related to] the standards we've got now. And from this, that we'll get uniform national standards with efficiency in the marketplace.