MREPORT PRESENTS

5X5: INDUSTRY POWERHO AND LENDI LEADERS

MEET 10 HOUSING FINANCE GAME-CHANGERS WHOSE INFLUENCE IS BREAKING NEW GROUND AND PROMOTING INNOVATION IN THE INDUSTRY

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COVER STORY

By Ryan Schuette

Housing finally seems to be on the mend—or so some say. Four years after the worst financial crisis since the Great Depression, analysts and economists are cautiously leaking that a recovery for one of the nation's most important sectors may just be around the corner.

Fannie Mae Chief Economist Doug Duncan, one of the superstars we profile in our September cover story, called housing one of the few "bright spots" in an otherwise slow-moving recovery. He cited boosts in home sales by 9 percent and single-family housing starts by 20 percent.

Still, politicians from both sides of the aisle are hedging their bets, preferring to use the economy like a 5-foot-by-5-foot headboard to whack each other over the heads in a general-election year, maybe not unlike kids playing whack-a-mole in the Roman coliseum.

Former Massachusetts Gov. Mitt Romney rarely fails to take aim at the unemployment rate, currently towering at 8.3 percent, with blame aplenty to spare for President Barack Obama. The commander-in-chief meanwhile ties his rival to spotty tax records, slash-and-burn job tactics while with Bain Capital, and the 1 percent (a not-so-spurious claim, perhaps, since Zillow reports that his Republican challenger currently owns three mansions).

Not surprisingly, then, housing drifts largely by the wayside, even in the face of a credible recovery. And that's why we thought you deserved a better look at all sides of the housing landscape—and the 10 brightest, most successful thought leaders and game-changers set to shape it.

Who made the cut? Not all of them are people you'd expect to see on a shortlist.

Sure, there are always public policy chiefs like Federal Housing Finance Agency (FHFA) Acting Director Edward DeMarco, a hitherto career bureaucrat, according to critics, who keeps home values down—and a true recovery far away—by denying principal reductions for homeowners with underwater mortgages.

But there's also Lisa Whitaker, the first female CEO of an Ithaca, New York-based credit union with roughly $800 million on the books—and 26.4 percent of the share in its mortgage marketplace, according to CreditUnions.com.

Let's start with the top five people we think deserve more than a penny for your thoughts next year.

THE TOP 5 INDUSTRY POWERHOUSES

1 INDUSTRY POWERHOUSE

EDWARD DEMARCO

Like him or hate him, you can't say that Edward DeMarco—acting director of the agency that regulates Fannie Mae and Freddie Mac and the one-man bulwark against housing relief—won't leave a mark on the secondary mortgage market when he leaves.

From Treasury draws for the GSEs to plush salaries for their chief executives and pushback on principal reductions for homeowners, the career bureaucrat-turned-lightning rod continues to shape housing policy with a radically minimalist, even Burkean conservatism that will linger for years.

Will a legacy guarantee his job? Probably not. The acting director continues to rebuff Congress over calls for expansions to refinance programs and principal reductions, citing precedent-setting dangers for mortgage finance and an overwhelming need to protect taxpayers from further loss. His claims center around a "preserve and conserve" mandate handed to the FHFA nearly four years ago by some of the same lawmakers critical of DeMarco today.

And that may make him the least popular man in town, even by Beltway standards. Calls for his resignation or sacking—whichever comes first—populate headlines with growing frequency, with 28 Democratic lawmakers signing a public letter for his head in January. *New York Times* columnist Paul Krugman joined the fray in July with a column he bluntly titled "Fire Ed DeMarco." Only Republicans stand by their man, with committee chair Rep. Spencer Bachus (R-Alabama) recently saying that DeMarco "deserves praise" for his stand against the majority.

Only time—and poll results in November—will tell if he stays long enough to preside over the mortgage market that his beliefs will almost certainly build for years to come.

Rebuffing Treasury Secretary Timothy Geithner, DeMarco wrote in July that the net payout from principal reductions is "likely to be much less than $500 million." He refuses to reconsider reductions even today.

2 INDUSTRY POWERHOUSE

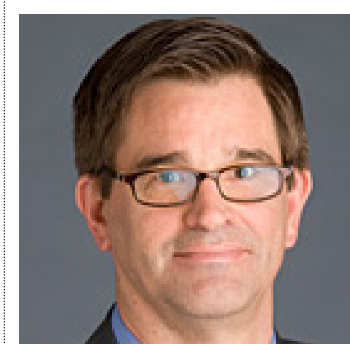
ELIZABETH WARREN

Before the financial crisis, few had ever heard of Elizabeth Warren, the wonky, bespectacled lawyer-turned-professor passionate about bankruptcy law and financial services reform. Now it seems everyone wants her in *some* leadership role—from liberal pollsters who recently placed her ahead of Hillary Clinton for president in 2016 to the commander-in-chief himself, whose party scheduled her to speak just before former President Bill Clinton at the nominating convention in August.

Currently running for Senate in Massachusetts with a D next to her name, Warren helped stand up the Consumer Financial Protection Bureau last year and stared down Republican lawmakers eager to repeal it, moves that forced her ouster from the Beltway last summer. She may return to Washington, D.C., by January next year—and double down on the Dodd-Frank Act, much to the chagrin of big banks and financial services lobbyists who love to hate her.

Where would Sen. Warren stand? In past statements, she said that systemically important banks and financial institutions "should be subject to far more aggressive oversight and have to pay more for the protections they receive from the American taxpayer." She believes Dodd-Frank "is a strong bill that moves in the right direction," but one that needs more teeth.

Translation: Expect a financial services warrior, a la fellow Massachusetts Democrats Barney Frank and the late Ted Kennedy. And if her campaign finances suggest anything—OpenSecrets.org reveals that her war chest so far includes $16 million—housing isn't likely to see the end of the Harvard professor anytime soon.



3 INDUSTRY POWERHOUSE

DOUG DUNCAN

The way many news reports read, you may not find a housing economist as celebrated today as Doug Duncan. According to his biography, the SVP and chief economist for Fannie Mae sits atop several lists for real estate luminaries, including *Bloomberg/Businessweek's* "50 Most Powerful People in Real Estate" and *Inman News'* "100 Most Influential Real Estate Leaders" for 2011, making him a shoo-in for our "5 by 5" list.

Asked whether he deserves the acclaim, Duncan self-effacingly tells us to "ask his mother" what she thinks of the Ph.D.-carrying 40-something.

Maternal commentary aside, Duncan gets the bulk of his kudos for the monthly diagnoses he makes about the economy and housing from his base camp at Fannie Mae's Economic and Strategic Research Group.

Thirty-three staffers from a range of disciplines help the chief economist chart macroeconomic forecasts with research from across the company, connecting the dots between jobs numbers, debt crises, and foreclosures. The reports give Fannie Mae heft in mainstream economics and transform statements from Duncan into quasi-fireside chats for a watchful public.

The economist credits style over substance. "What business leaders really need to know is what the trend is and what the momentum is behind the trend," he says. "If there's one way I've tried to make a difference, it's by using language that people can understand, not the jargon of my profession."

And where does he think the markets will trend next? According to Duncan, the United States faces a "mild recession," given wrangling by politicians over the fiscal cliff. He assigns high odds to the probability of a "Grexit"—talking-head speak for Greece's departure from the European Union—which would likely fall hard on housing, despite an era of all-time affordability.

But you may want to consult his mother first.

4 INDUSTRY POWERHOUSE

JOSEPH A. SMITH JR.

With silvery hair and just a hint of Southern drawl, Joseph A. Smith Jr. offers a grandfatherly overtone to the compliance process for the five banks party to the $25 billion servicer settlement. But don't let first impressions fool you. The former North Carolina banking commissioner and onetime FHFA nominee is out to prove people wrong about justice and accountability in the bailout era.

Seven months after state and federal officials unveiled the settlement, Smith remains busy with his Office of Mortgage Settlement Oversight. In June, he selected the primary law firm that will serve as his "eyes and ears" with the five servicers. In August, he added to his still-growing team by picking up five secondary law firms—*just to assist the first one.*

His philosophy about servicer compliance? "If [banks] violate something, you give the banks the opportunity to make it right," he told us in an earlier interview. "If they can't cure or won't cure, then you need to consider enforcement actions and penalties," he said, adding that he'll seek "plenty of backup from [state attorneys general]" and "injunctive relief from the courts" when confronted with non-compliance.

In a few words: The settlement monitor means business. Tough if the banks don't like it. And his attitude toward bank compliance will likely change the way law firms and bank regulators see their roles in the financial services world.

Asked whether the servicing industry needs national standards in the form of new rules, Smith answered yes, "ultimately . . . and we ought to."

5 INDUSTRY POWERHOUSE

PETER WALLISON

If you don't know too much about Peter Wallison, ask someone who remembers when legwarmers were in vogue. The former White House general counsel went head-to-head with investigators during the Iran-Contra Affair. Not one to recede into history's pages, he later took up a role as member of the Financial Crisis Inquiry Commission in 2009, writing the lone dissent against majority claims about high-stakes mischief on Wall Street.

And he hasn't stopped since.

As a fellow with the conservative-leaning American Enterprise Institute, Wallison regularly convenes events and lectures to rail against government overreach in the U.S. housing market. He argues that Dodd-Frank makes "Too Big to Fail" even bigger by favoring banks over others, dismisses the idea that abolishing government mortgage guarantees could wreck homeownership rates, and looks forward to a future sans Fannie Mae and Freddie Mac.

On occasion, the former White House lawyer even trades barbs with Rep. Barney Frank (D-Massachusetts). Last year their spat landed in the pages of *The Atlantic* when Frank called Wallison an "extremist," meriting verbal volleys in response.

Asked about Frank and his decision to retire, Wallison told us in a recent interview that he felt "very happy" about it. "What he has done recently with the Dodd-Frank Act has been very destructive," Wallison said. "For that reason, I am happy to see that he will bow out."

Not that all politicians find fault with the former Reagan administration official. According to Wallison, the Romney campaign adopted his dissent to the commission. "All the Republicans have basically accepted my narrative," he said.

Thought leader, indeed.

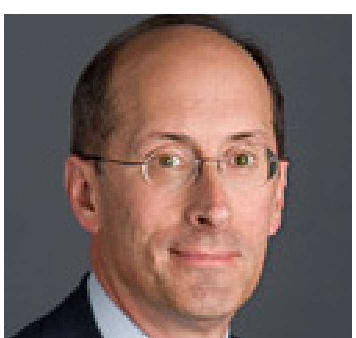
"If [banks] violate something, you give the banks the opportunity to make it right. If they can't cure or won't cure, then you need to consider enforcement actions and penalties."

— Joseph A. Smith Jr.

THE TOP 5 LENDING LEADERS

1 LENDING LEADER

DONALD LAYTON



2 LENDING LEADER

TIMOTHY MAYOPOULOS

It takes two to tango. We decided to cram the new chief executives for Fannie Mae and Freddie Mac into our No. 1 and No. 2 slot accordingly—if only because these two men could take the phrase "government sponsorship" out of GSE.

Donald Layton, former CEO with E*Trade Financial Corp., and Timothy Mayopoulos, former general counsel with Bank of America, each takes the reins at Freddie Mac and Fannie Mae, respectively, as the mortgage giants seek to turn a new leaf with the American taxpayer.

The two couldn't step in any more quickly. Their predecessors left under a cloud of criticism from Capitol Hill over $13 million in bonuses last year for themselves and 11 other senior-level executives, with FHFA Acting Director Edward DeMarco and Congress jointly limiting pay grades to the same for high-ranking bureaucrats.

Fannie Mae and Freddie Mac meanwhile occupy what some call an unsustainable place in the secondary mortgage market, with nearly nine out of 10 mortgages across the country under their guarantee. The two companies recently eked out positive net worth during the second quarter—with $3 billion for Freddie Mac and $2.8 billion for Fannie Mae—just narrowly evading Treasury draws.

Even so, the mortgage giants remain under both scrutiny and criticism, with many reformers arguing more vocally than before that a federal lifeline for either will lead to the next financial crisis.

Enter Layton, a former JPMorgan Chase official, and Mayopoulos, who joined Fannie Mae three years ago. Both arrive as seasoned hands from the financial services world. Many see Layton, widely credited with turning around troubled insurer AIG, as the cure to the revolving-door syndrome at Fannie Mae.

Mayopoulos may have different ideas for ailing Fannie Mae. Appearing on CNBC, he recently said that the mortgage giant "needs to shrink," if only because "private capital is sitting on the sidelines."

Insiders concur that it's still too early to determine how the two new execs will change Fannie Mae and Freddie Mac. What's clear is that both men have their work cut out for them.

3 LENDING LEADER

PHIL BALDWIN

For Phil Baldwin, the role he plays as CEO of CredAbility comes with a mission statement. The chief executive speaks wistfully about older times, better times, once-upon-a-times, when the middle class thrived on good-paying jobs and solid home equity.

"The middle class is seeing more and more challenges," he says. "Education is becoming less and less attainable for families, with student debt higher than credit card debt."

And that, for Baldwin, gives CredAbility, a foreclosure prevention agency, all the cause it needs to court homeowners with an overhang of mortgage debt and the inability to step out from underneath it.

According to its website, HUD-certified housing counselors with CredAbility have held more than 400,000 foreclosure prevention counseling sessions with homeowners. Of these, according to a spokesperson, average income amounted to $51,081 in 2011, a sharp increase from $40,534 in 2006, just before the recession.

As for the results? Baldwin says that more than 74 percent of homeowners stay in their homes after just one year of counseling. As a quiet voice for homeowners seeking relief, the CredAbility CEO stands above the politics of the housing recovery.

"The home is the single biggest asset people have," he tells us. "It's the place where they can raise their families. CredAbility has the unique infrastructure to touch people's lives."

4 LENDING LEADER

LISA WHITAKER

She may not stand shoulder-to-shoulder with Donald Layton or Timothy Mayopoulos, but Lisa Whitaker tops a list of her own in upstate New York, where she serves as CEO of Ithaca-based CFCU Community Credit Union.

Of so many lenders in a credit-sapped economy, CFCU remarkably accounts for 26.4 percent of the share in its market, topping a list of other lenders that CreditUnions.com ranked for the region. The credit union, currently worth $800 million, banks on an in-house staff responsible for closing and originating home loans.

Asked what made CFCU so successful, Whitaker nods at community involvement by board members, executives, and staff members. "We live here locally. We raise our families here," she tells us. "So I think you have a genuine leadership that understands what's going on in the community," and she attributes any borrower loyalty to the approach.

Washington, D.C.-based Callahan & Associates sketches a different picture. The law firm found in May this year that credit unions set records across the country by originating $26 billion in home loans over the second quarter, with mortgages averaging $161,549.

Why the rush to credit unions? Look no further than banks. Fee hikes for debit card users inspired a "Bank Transfer Day" in November last year that saw disgruntled customers switch to credit unions. With Barclays' LIBOR scandal fresh on the minds of many, experts expect that smaller financial services institutions will continue to reap the benefits.

And that trend may just be another reason why some consumers bank on credit unions like CFCU.

"We have originators born and raised in this community," Whitaker adds. "Those ties have helped us to continue to increase our market share."

"You have to take a holistic view to . . . your total cost per loan or you will fail to maximize your platform's potential."

— Binh Dang

5 LENDING LEADER

BINH DANG

With new rules and settlement terms coming down the pipeline for originators, experts say that many struggle to make ends meet—literally, maybe, with end-to-end loan processes.

Binh Dang, CEO of LendingQB, a Costa Mesa, California-based mortgage solutions technology provider, arguably works near the epicenter of a broad movement by originators toward simpler software solutions.

"You have to start by taking a holistic view to all of the costs involved with your total cost per loan or you will fail to maximize your platform's potential," he says.

Servicers understand the importance of a comprehensive look at their home loans. A recent homeowner's bill of rights for Californians took a stab at the issue—a dormant one before the financial crisis that experts say made it that much worse—by banning dual-tracking processes altogether.

Like other organizations in the mortgage technology field, LendingQB provides financial institutions and independent brokerages with mobile apps and the like. Seemingly unlike other competitors, it recently unveiled a start-to-finish, entirely web-based system that tracks loans from first base to home base.

For Dang, the rush by mortgage industry professionals to new technology solutions reflects a simpler trend. "The mortgage industry is an incredibly fluid, regulatory intensive business climate," he tells us. "Meeting compliance change is atop the list of all organizations."