



Unabridged [Full] Toni Moss Interview with Ted Cornwell, National Mortgage News: September 6, 2013

What distinguishes the AmeriCatalyst conference from other mortgage industry events?

For years, I've posed this question to our alumni both in Europe and the U.S., and their answers range from the incredible candor and caliber of the dialogue and new insights, to the depth and breadth of the audience and speakers, to the ideas and "epiphanies" they experience, to the inspiration that comes from being so intellectually challenged that they are both excited and exhausted at the end of each day. But the one response that is absolutely constant is their appreciation that the event is driven by my very personal passion for the sustainability of the industry, and purpose to provide a consciousness and direction for improving our products, processes, practices – and people.

The event is also differentiated by its context and narrative. The context of this event is globalization and its impact on the housing finance industry, which truly changes everything, both literally and figuratively. Globalization has created a world in which the greatest change is the pace of change in all aspects of our lives and the world. It is an interesting dynamic given the equally ubiquitous nature and importance of this industry in all aspects of our personal lives, and socio-economic and political structure. In that context, the entangled nature of sovereign stability and the global economy, for example, becomes extremely relevant to everyone in this industry regardless of where you work in the housing finance lifecycle. We should never forget that we are part of an industry that has brought an end to the relatively predictable and comfortable life that we as Americans once knew and will never see again. What drove that implosion is certainly greed, ignorance, irresponsibility and the regulatory arbitrage (or lack thereof) that enabled that to flourish. At times I've been quite controversial in saying things to prompt a strong reaction to actually thinking about them such as "capitalism is the virus, the internet is the host," for example. In that statement, I am actually referring to globalization, which is the real catalyst for that implosion. By looking at the evolution of housing finance in that context, it seemed clear to me in 2002, when I started this event, to see that this could potentially happen, which was why I created the event in the first place.

What do you expect to be the big themes discussed at this year's gathering?

The predominant editorial theme of the entire event is "Rorschach", which refers to the psychological "ink blot" test in which individuals look at a series of images and describe what they see. Their interpretations are analyzed to determine their personality characteristics and emotional functionality – or put another way, thought disorder. You just know where I'm going with this...

The theme refers to the way in which everyone is coping with the volatility and discomfiting state of the industry right now. We no longer trust research, we are subjected to this constant "digiphrenic" flow of sound bites and our narrative has collapsed. In the absence of clarity, all of the experts that we rely on are at this point "projecting" what they want to see based on their own bias. It's not an indictment, but an observation.

The main themes will surround this state of unreality and inertia, and the looming threats that are creating somewhat of a standstill that we are trying to push forward. Those threats range from the global economy, potential for sovereign default and its



impact on international cash flows upon which we have relied in the past to fund more than 50% of the industry; to the impact of regulation and the inevitable constriction of credit; to the political chaos preventing real market reform to happen; to the emergence of Big Data and its pitfalls and promises; to the pervasive mentality that we will somehow return to the "glory days" of past profitability and the reality that there are many areas of the industry that have been unaddressed and need to be fixed moving forward.

All of these themes are actual sessions this year, and if one reads the program they will clearly see a narrative that cycles them through the most important issues we face today.

With the CFPB's final lending rule going into effect next year, what impact do you think that will have on the mortgage business?

To mortgage originators, January 10, 2014 is a date as feared as the end of the Mayan Calendar. Yes, it will constrict credit dramatically in comparison to the unregulated freedom of riding shotgun up the LTV curve and down the credit curve that we once knew. But the world doesn't end. We evolve, and we innovate. This is when you really need to look at other models and products from around the world to figure out how to originate what looks like a mortgage but doesn't fall within the CFPB criteria and there are models that would work here.

How do you think "big data" may impact mortgage lending and servicing?

I haven't had the chance to address this yet – but I did title that session, "Revenge of the Nerds"...

Where do you think GSE reform is going? Do you think there is enough political support to get any kind of GSE reform done?

No. My shortest answer on record. I think that we will still be discussing what to do right up until we realize that the answer is to bulldoze and rebuild our entire system based on the world as it is today, and not the world of the 1940's. And I think that Ginnie Mae will become one of the driving forces in that reconstruction – or reformation.

Tell me more about the "renting the future" follow up conference.

RENTING THE FUTURE immediately follows the AmeriCatalyst event for several reasons. AmeriCatalyst is focused on the impact of globalization on the housing finance industry, while RENTING THE FUTURE is focused on the single-family rental Sector. Both sectors are converging through the emergence of a non-linear spectrum of housing options including rental and home ownership, therefore the content converges from one event to the other.

From an editorial perspective, the double entendre inherent in the event title is deliberate, in that I believe that the sector is crucial in meeting the needs of individuals and families who seek to increase their mobility and retain their liquidity by securing high quality rental housing that is professionally managed and customer-centric at a fair market value. As such, I also believe that due to a variety of factors including cultural shifts, demographic change, and ongoing economic volatility will only increase the growth of single-family rental in the future. The SFR sector will likely evolve similar to that of the multi-family sector, and grow from its current invested capital of approximately \$17 billion to over \$100 billion in the next few years



in the U.S. alone. Finally, I think that the evolution of this sector is an inevitable outcome of globalization not limited to the U.S., and that its success will be replicated in other countries around the world.

Therefore, I have banned the ridiculous question that is usually the first one asked in events on this topic, "single-family rental – is it a trend, or a trade?" Clearly, it's a trend that is here to stay. In fact, I foresee a gradual – but noticeable decline in homeownership moving forward due to the waterfall of change in each generation in this country.

How has the "globalization" of the mortgage business changed in the wake of the Great Recession? What impact will globalization have on the industry going forward?

First, it's important to understand that internationalization is something entirely different than globalization (i.e., "inter-national" as opposed to a convergence of forces that are uncontrollable, accelerating, and continue to change everything about our lives so rapidly that we don't realize it until what we once knew is gone or no longer relevant.)

With regard to "what impact will globalization have on the industry going forward," the most dramatic response would be that globalization is rendering our entire housing finance products and structure obsolete and in its wake, we need to consider that possibility and ask ourselves what a sustainable housing finance system should look like in a globalized world. [See updated response and explanation below]. With a few notable exceptions, this industry does not have the mindset – or courage – to think the unthinkable, even though the reality that exists today was unthinkable five years ago. Denial is a very powerful choice that many of our industry leaders are making because facing that reality is painful, overwhelming, and creates a profound sense of powerlessness. We talk about market "reform" as though we will improve something when in fact we literally need to rebuild it from the ground up. It's true that our housing finance system, like all others around the world, is inextricably wed to the socio-economic and political structure of the nation. That system, however, was established in the 1940's. It's almost a century later.

Globalization (and economic decline) has eroded the entire concept of the welfare state; we no longer have job security anywhere, in any industry, sector, or company; individuals and families are economic migrants following jobs, which does not bode well for the lack of liquidity and mobility imposed by homeownership – unless we see this as an opportunity to design new, flexible products. In the Netherlands, for example, there is a "portable mortgage" which transfers to your new home. Demographic patterns show the explosion of immigrant populations, which promise new segments to serve, but also show an aging population out of sync with declining birthrates and a generation lacking in number to purchase those larger homes as the aging seek to downsize. Social and new media presents incredible challenges to servicers for example, in that a series of mistakes and borrower mistreatment will spread like wildfire and ruin a brand overnight or worse. The phenomenal advances in technology have made the industry more efficient but, in turn, the workforce redundant. Don't even get me started about the catastrophic consequences of increasing wealth inequality and the destruction of the middle class – they are the very heartbeat of this industry and this is our greatest blind spot. What does this say about future demand for mortgages, not to mention the ability to repay these loans over time? I think that it means that the 30-year fixed loan will be replaced by shorter maturities and to a very large extent, accelerate our move toward an increasingly "Neo-feudal" society. The industry should be entirely up in arms over the erosion of the middle class. We ignore it at our own peril.