COALITION FOR SENSIBLE HOUSING POLICY

Memorandum

To: Columnists, Reporters
From: The Coalition for Sensible Housing Policy
Date: October 2013
Re: Revised QRM Rule

As you are aware, in late August federal regulators issued a revised Qualified Residential Mortgage (QRM) rule as part of the Dodd-Frank Act. The risk-retention provisions within Dodd Frank require the issuers of mortgage-backed securities to retain a portion of the risk of potential loss on those assets. Recognizing that requiring risk retention would impose increased costs even on creditworthy borrowers, Congress specified that well-underwritten mortgages with consumer-friendly features– "Qualified Residential Mortgages" – should be exempt from the risk retention requirement and directed regulators to promulgate regulations to establish the exemption. The proposed rule is now in a public comment period that ends October 30, 2013.

Along with a wide range of experts, the Coalition for Sensible Housing Policy is pleased that federal regulators chose to synchronize the definition of QRM with the Qualified Mortgage (QM) rule issued earlier in the year by the CFPB, and in so doing preserves a role for prudently underwritten, low down payment loans as part of the new rule. The coalition has reliable data that show that low down payment lending was not the cause of the housing collapse, and in fact, will be key to the turnaround in the months and years to come.

If you are interested in speaking with an expert member of the Coalition or for additional data or information, please contact Lindsay Gilbride at lgilbride@clsdc.com or 202-777-3548.

Proposed Standards: Proper Balance

QM and QRM Alignment. The proposed rule equates QRM with the CFPB's new "ability-to-repay" QM standard, which prescribes new rules within the Dodd-Frank law to ensure a borrower has the means to repay his or her mortgage, and discourages the use of certain types of loans that are considered high-risk (such as interest-only or negative amortization). Consistency between QM and QRM will give mortgage professionals much-needed clarity about which mortgages are and are not defined as risky, and will additionally encourage safe and financially prudent mortgage lending, while ensuring creditworthy homebuyers have access to safe mortgage financing with lower risk of default.

As data presented by the coalition in the past show, making QRM any more restrictive than QM could unintentionally restrict creditworthy borrowers from accessing mortgage financing. For example, incorporating even a 20 percent down payment requirement as part of the rule would exclude 10 otherwise good, performing mortgage loans to prevent one foreclosure.[1] (Note: regulators are seeking

[1] Roberto Quercia, Lei Ding and Carolina Reid (2012). "Balancing Risk and Access: Underwriting Standards for 2012 Qualified Residential Mortgages," UNC Center for Community Capital Research Report, January 2012.

comments on a QRM alternative requiring 30 percent down to avoid Dodd-Frank risk retention requirements)

No Down Payment Requirement. Federal regulators revised their original proposed rule from 2011 that would have required a 20 percent down payment from home buyers as one of several preconditions for avoiding Dodd-Frank risk retention. Such steep down payment requirements are unnecessary to accomplish the purposes of the QRM standard and would severely and needlessly block many creditworthy borrowers from becoming homeowners. As Senators Kay Hagan, Mary Landrieu and Johnny Isakson denounced, requiring a 20 percent down payment is "a misinterpretation of the intent of the provision in the law that could needlessly slow the housing market's recovery and price well-qualified Americans out of the market." Lenders, insurers, investors, and borrowers will still choose down payments appropriate to household wealth, income, and risk tolerance, but high household wealth will not be a precondition for access to the best mortgage loan.

High quality underwriting. The re-proposed QRM rule, as intended by law, will help drive high quality underwriting and align the secondary mortgage market with the safe mortgage products designated by QM. It will help provide clear rules that allow for robust markets that meet the needs of creditworthy borrowers in a safe and sound manner. As research shows, subprime borrowers who received loans without risky product features (i.e. those that would qualify for QM product loans) performed significantly better than subprime borrowers who received non- QM qualifying loans. While QM restrictions may limit mortgage access for some borrowers, the primary effect would be to protect consumers from getting a mortgage that is unsustainable over the long-term. Harmonizing the two rules will further ensure that safe and sound lending protections are put in place, but without unduly restricting the housing market from efficiently accessing private capital.

The Alternative: A Step Backward

In the revised rule, regulators raise a secondary question about the merits of a 30 percent down payment requirement as an alternative for QRM. However, sensible credit standards can exist without a significant down payment requirement. In fact, other reliable measures of loan performance, such as thorough underwriting and loan type, can be effective predictors of potential default. Setting a 30 percent down payment requirement for QRM would, in effect, cut the mortgage market in two. We do not yet have reliable estimates of how large or liquid either section would be, but we know there would be some additional cost for those excluded from the most efficient form of financing. Now is not the time for regulators to subdivided or complicate the mortgage market, particularly when we cannot clearly anticipate the consequences.

QM and QRM together will make thorough underwriting and low risk mortgages the overwhelming standard in the market, without imposing down payment requirements above and beyond what lenders, insurers and investors will already continue to require.

About the Coalition

The Coalition for Sensible Housing Policy is a diverse coalition of nearly 50 consumer organizations, civil rights groups, lenders, real estate professionals united in their opposition to high down payment requirements that could freeze credit-worthy Americans out of the housing market. For more information, including a full list of members, visit www.sensiblehousingpolicy.org.

What Others are Saying

Martin Gruenberg, Federal Deposit Insurance Corp Chairman: "The rules effectively prohibit a number of the problematic practices that contributed to the recent mortgage crisis… It will bring a measure of clarity and consistency to the mortgage market that will facilitate its recovery."

Coalition members:

Center for Responsible Lending: "In revised proposed rules defining qualified residential mortgages (QRM), regulators crafted standards that address key causes of the past housing crisis and will prevent future abusive lending. At the same time, the newly-proposed rule will protect access to credit for many homebuyers by not mandating downpayment levels."

Chris Estes, President and CEO of the National Housing Conference: "Aligning the QRM rule with the QM rules will allow more American families to become homeowners and ensures that housing markets can remain strong in the future. This is especially important for communities that are still rebuilding from the foreclosure crisis."

Ethan Handelman, National Housing Conference Vice President: "The new direction regulators are taking is a very positive step, but the details will determine whether an average American family can purchase a home affordably."

Gary Thomas, National Association of Realtors President: "The re-proposed Qualified Residential Mortgage rule announced this morning is a victory for homebuyers and the future of homeownership in this country. This version of the QRM rule will give creditworthy buyers access to safe and affordable loan products without overly burdensome downpayment requirements."

John Taylor, National Community Reinvestment Coalition President and CEO: "The alignment between QRM and QM will help to ensure that credit is not unnecessarily constricted by QRM, and that creditworthy borrowers will have safe access to mortgage credit."