COALITION FOR SENSIBLE HOUSING POLICY

Proposed QRM Will Undermine Housing Reform Goals

The QRM was intended to help shrink the government presence in the market, restore competition and mitigate the potential for further consolidation of the market. Unfortunately, regulators have developed a proposal that does just the opposite.

PROPOSED QRM WILL INCREASE DEMAND FOR GSE LOANS

The proposed narrow QRM rule discourages development of a renewed, robust and diversified private lending market. With a statutory exemption for FHA and VA, government-backed loans will have a significant market advantage over fully private loans, and the proposed high down payment requirements in QRM will drive low wealth borrowers to this option.

Although the treatment of the GSEs in the proposed rule mitigates the immediate adverse impact of the rule on the housing market, given the uncertainty surrounding their future, it is not a viable long-term solution, and does little to establish the certainty needed for a strong private secondary mortgage market to develop based on sound underwriting principles and product standards.

PROPOSED QRM WILL DELAY – OR EVEN HALT – RETURN OF PRIVATE CAPITAL

Under the restrictive QRM rule, the agencies acknowledge that the vast majority of loans will be non-QRMs subject to the higher costs of risk retention. But it is not clearly evident that risk retention itself will attract investors to securitizations backed by non-QRMs. If investors do not find non-QRM securities attractive, or issuers find that the costs of the risk retention rule render securitization unviable, there is no obvious source of sufficient capital to meet the needs of the market falling outside of the FHA, GSE and QRM spaces. To the extent that portfolio lending by depositories picks up some of the slack, short-term adjustable rate loans are likely to be the rule. Reliance on depositories also increases taxpayer exposure because of those institutions' systemic importance.

The result: reduced market liquidity, a shift away from 30-year fixed rate loans, and a move toward more portfolio products like ARMs and hybrid ARMs (e.g., a fixed rate for 5 years that converts to a one year ARM).

Mortgage securitization pioneer Lew Ranieri supports efforts to reform the securitization process and improve the incentive structures in the market, but in response to the proposed rule, Ranieri has said: "The proposed very narrow QRM definition will allow very few potential homeowners to qualify. As a result, it will complicate the withdrawal of the Government's guarantee of the mortgage market. I fear it will also delay the establishment of broad investor confidence necessary for the re-establishment of the RMBS market."[1]

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[1] RISMedia, April 8, 2011, "Diverse Groups Respond to Proposed Rule for Qualified Residential Mortgages"

QRM COULD INCREASE SYSTEMIC RISK

By creating such a narrow QRM market, the capital required to make loans outside of the QRM – either via portfolio lending or through securitization where they would have to absorb the required credit risk position – will simply not be available to most community-based lenders. The result will be even further concentration of mortgage lending in a small number of institutions, reducing competition and increasing systemic risk.[2]

Rather than rely solely on a short-term fix, the regulators should follow Congressional intent and establish a broadly available QRM that will create incentives for responsible liquidity that, in turn, will flow to a broad and deep market for creditworthy borrowers.

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[2] According to National Mortgage News, by the end of 2010, five large banking institutions controlled 60 percent of all single-family mortgage originations.