WISCONSIN BANKERS ASSOCIATION

October 29, 2013

VIA EMAIL

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street S.W., Suite 3E-218,
Mail Stop 9W-11
Washington, DC 20219
regs.comments@occ.treas.gov
Docket Number OCC-2013-0010

Mr. Robert deV. Frierson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.,
Washington, DC 20551
regs.comments@federalreserve.gov
Docket Number R-1411

Mr. Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, N.W.,
Washington, DC 20429
Comments@FDIC.gov
Docket Number RIN 3064-AD74

Ms. Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street N.E.,
Washington, DC 20549-1090
rule-comments@sec.gov
File Number S7-14-11

Mr. Alfred M. Pollard, General Counsel
Federal Housing Finance Agency
Attention: Comments/RIN 2590-AA43
400 7th Street S.W.,
Washington, DC 20024
RegComments@fhfa.gov
Docket Number RIN 2590-AA43

Regulations Division, Office of General Counsel, Department of Housing and Urban Development
451 7th Street, S.W., Room 10276
Washington, DC 20410-0500
www.regulations.gov
Docket Number RIN 2501-AD53

Re: Proposed Credit Risk Retention Rule; Docket Number: OCC-2013-0010; FRB R-1411; FDIC 3064-AD74; SEC File No S7-14-11; FHFA RIN 2590-AA43; and HUD RIN 2501-AD53.

Dear Sirs and Madams:

The Wisconsin Bankers Association (WBA) is the largest financial trade association in Wisconsin, representing approximately 300 state and nationally chartered banks, savings and loan associations, and savings banks located in communities throughout the state. WBA appreciates the opportunity to comment on the proposed credit risk retention rule as re-proposed by the Office of the Comptroller of the Currency (OCC), Board of Governors of the Federal Reserve System (FRB), Federal Deposit Insurance Corporation (FDIC), Securities and Exchange Commission (SEC), Federal Housing Finance Agency (FHFA), and Department of Housing and Urban Development (HUD) (collectively, the Agencies).

WBA recognizes the re-proposal is one to implement the credit risk retention requirements of section 15G of the Securities Exchange Act of 1934, as amended by section 941 of the Dodd-Frank Act (DFA). Section 15G generally requires the securitizer of asset-backed securities (ABS) to retain not less than five (5) percent of the credit risk of the assets collateralizing the ABS. Section 15G includes a variety of exemptions from these requirements, including an exemption for ABS that are collateralized exclusively by residential mortgages that qualify as "qualified residential mortgages" (QRMs), as such term is defined by the Agencies in the rule.

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WBA also recognizes the difficulty within the very compressed timeframe mandated by Congress to try to craft complex regulations for credit risk retention that will have significant, and potentially severe, consequences for the manner in which diverse types of securitization transactions are structured. We appreciate the extraordinary amount of time and resources the Agencies have devoted to developing the re-proposal. In particular, we appreciate the Agencies' efforts to take into account the diversity of assets that are securitized, the structures historically used in securitizations, and the manner in which sponsors may have retained risk. And, we are grateful that the Agencies took additional measures to withdraw the original proposed credit risk rule (OCC-2011-0002; FRB R-1411; FDIC RIN 3064-AD74; SEC File No. S7-14-11; FHFA RIN 2590-AA43; and HUD FR-2204-P-01) to further research and consider these complex matters in light of comments received on the original proposal.

WBA acknowledges that some sectors of the securitization market performed very poorly in the recent past and that the financial crisis exposed serious flaws in the securitization process. From a credit risk perspective, the major problems that arose in the securitization market during this time were concentrations in the securities backed by various types of residential mortgage loans (RMBS), in securitizations that invested in RMBS, and to a lesser degree in commercial mortgage-backed securities (CMBS). However, as recognized in FRB's October 2010 *Report to Congress on Risk Retention*[1], while nonconforming prime RMBS, nonprime RMBS, and CMBS experienced significant credit rating downgrades between 2007 and 2010 and the likelihood of default increased significantly, "other ABS categories had very few or no securities rated likely to default." As mentioned above, WBA appreciates the additional consideration taken by the Agencies to further analyze these matters so as to implement DFA section 941 in a way more appropriately targeted to the practices Congress intended to be addressed.

WBA offers the following specific comments:

WBA Strongly Supports Agencies' Re-Proposal to Incorporate the QM Standard to Define QRM

WBA wishes to associate itself with the comment letter and White Paper filed by the Coalition for Sensible Housing Policy[2] (Coalition) with respect to the Agencies' credit risk re-proposal. WBA strongly supports the re-proposed rule's primary recommendation to incorporate the Bureau of Consumer Financial Protection's (CFPB's) qualified mortgage (QM) standard to define QRM.

We believe this approach achieves the twin objectives of protecting the marketplace while ensuring borrowers have access to safe mortgages. Investors will remain confident they can rely on the quality of mortgages underlying securitizations and creditworthy borrowers will be able to have access to conventional financing for safe, sustainable mortgages. At the same time, it also ensures that loans with the highest risk, meaning those with the product features explicitly excluded by CFPB's QM standard, will be subject to the risk retention rules for ABS. In releasing the re-proposed rule, WBA agrees with the Agencies' expressed valid concerns that establishing diverse standards for QM and QRM loans could result in an increase in complexity, regulatory burden and compliance costs that will be passed on to borrowers in the form of higher interest rates and restrictive credit standards.

WBA recommends the Agencies finalize the re-proposal to incorporate the QM standard to define QRM.

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[1] *Report to Congress on Risk Retention*, Board of Governors of the Federal Reserve System, at 8 (October 2010), available at *http://federalreserve.gov/boarddocs/rptcongress/securitization/riskretention/pdf* (Board Report).

[2] *Updated QRM Proposal Strikes Balance: Preserves Access While Safeguarding Consumers and Market*, available at *http://sensiblehousingpolicy.org/uploads/White_Paper.pdf*.

WBA Strongly Opposes Alternative "QM-Plus" Approach Which Requires 30% Down Payment to Obtain QRM Loan; No Explicit Down Payment Should be Required

In the re-proposal, the Agencies seek comment on the merits of adding a 30 percent down payment in addition to QM credit standards as an alternative for QRM ("QM-Plus"). Again, WBA wishes to associate itself with the Coalition's position to strongly oppose the Agencies' proposed alternative "QM Plus" approach. WBA believes a restriction to require borrowers to make a 30 percent down payment will severely restrict access to mortgage credit for far too many creditworthy borrowers– especially for first-time homebuyers, minority borrowers who may previously have been "unbanked" or "underbanked" customers first seeking services from regulated financial institutions, and military borrowers. Additionally, real property values are still significantly low, thus making it extremely difficult for even seasoned, well established borrowers to meet the proposed 30 percent down payment requirement.

Unfortunately, the Agencies' proposed "QM Plus" approach is even higher than that of the original proposal, which required a 20 percent down payment with even higher levels of minimum equity required for refinancing, despite the fact that Congress considered and rejected establishing minimum down payments because loans have shown to perform well without high levels of equity when there is strong underwriting and safe, stable product features. Respectfully, we believe the legislative history regarding QRM clearly demonstrates Congressional intent to *avoid* a minimum down payment requirement.

WBA also fears that the "QM Plus" approach will divide the mortgage marketplace because of the QRM exemptions provided for within the re-proposal. As a result of the proposed exemptions, Fannie Mae, Freddie Mac and FHA programs are not subject to QRM requirements; therefore, consumers not having to comply with a 30 percent down payment will flock for lending through those programs which will result in a freeze of the re-emergence of the private securitization market.

For the reasons outlined above, the Agencies must not finalized the re-proposal with a down payment requirement.

Conclusion

Once again, WBA appreciates the extraordinary amount of time and resources the Agencies have devoted to developing the re-proposed credit risk retention rule. We believe it is critical that the Agencies balance the development of risk retention requirements that implement Congressional intent with the need to ensure that the private securitization market is restored as a viable and robust source of funding. We believe the Agencies' re-proposal to incorporate CFPB's QM standard to define QRM better meets that balancing act than was originally proposed.

However, the Agencies must not adopt the additional 30 percent down payment requirement of the proposed "QM-Plus" alternative, or of any down payment requirement, as we fear to do otherwise will most certainly result in an unnecessary restriction in credit for borrowers and will divide the mortgage marketplace, to the overall detriment of our economy.

Again, we appreciate the opportunity to comment on this complex topic.

Sincerely,

Rose M. Oswald Poels
President/CEO