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Credit Risk Retention Proposed Rule

To Whom it May Concern:

On behalf of the Oregon Bankers Association (OBA) and its membership of Oregon's state and national banks, we appreciate the opportunity to comment on the above-referenced proposal (Proposal) regarding the credit risk retention rule. We commend the agencies for modifying the original proposed rule to match the definitions of Qualified Residential Mortgage (QRM) with the previously adopted Qualified Mortgage (QM) standard. We also believe that this option, without an explicit down payment requirement, provides adequate protections for both investors and borrowers.

QRM/Risk Retention Background

Title IX of the Dodd Frank Act requires mortgage loans eligible for sale to the secondary market for securitization to include either a five percent risk retention requirement or to meet standards exempting loans from risk retention. These standards are to be developed jointly by the prudential bank regulators and the SEC, HUD, and the FHFA. Loans meeting the new standard and exempt from risk retention are to be deemed QRMs.

An initial proposal issued by regulators would have required QRM loans to have a minimum 20 percent down payment requirement. OBA, bankers associations around the country and a broad coalition of lenders, realtors, homebuilders and consumer advocates voiced concern and opposed this initial proposal as too restrictive.

Regulators were urged to establish a standard that mirrored the QM standard developed by the CFPB. In late August, the agencies issued a Proposal that largely adopts the approach of having QRM be the same as QM. This Proposal, however, also set forth an alternative approach that would require an even greater down payment of 30 percent. This alternative approach is wholly unworkable and counter to good public policy. The following are considerations regulators should factor into their decision making process concerning the Proposal:

QRM Should Equal QM

The Proposal sets out a standard whereby loans that meet the soon to be implemented QM standard would also be deemed to meet the QRM standard. Loans meeting the QM standard will be well underwritten, high quality loans that are safe and sound. Under the statute, QRM cannot be broader than QM. Because QM loans will be well underwritten and cannot include any risky features it makes little sense to define QRM more narrowly. Doing so will only harm otherwise credit worthy borrowers.

Loans that are deemed QM fall into one of two categories depending upon the price of the loan. Lower priced loans fall into a safe harbor and higher priced loans receive a rebuttable presumption of compliance. Both categories, however, will consist of high quality, well underwritten loans with income and employment verification, a debt to income ratio of not more than 43 percent and no risk loan features.

We believe that this approach achieves the goals of protecting the marketplace while also providing borrowers with access to mortgages. It also avoids concerns associated with establishing different standards for QM and QRM such as increased complexity and compliance burden that would result in higher cost mortgages for borrowers.

The QRM Plus 30 % Down Payment Approach is Deeply Flawed and Should Be Rejected

The Proposal also asks for comment on an alternative approach to the QRM equals QM approach. This additional proposal would allow QRM to equal QM, but would add an additional requirement of a 30 percent down payment (or 30 percent equity in a refinance). This approach would be even more burdensome than the 20 percent down payment requirement in the original rule that was rejected by the agencies.

The QRM plus 30 percent down payment approach, if adopted, would not make the marketplace safer and would restrict access to credit for far too many otherwise creditworthy borrowers. This would be especially true of first-time borrowers.

It would also further divide the market. Fannie Mae, Freddie Mac and FHA are not subject to the QRM rule. If this rule were adopted, borrowers not having to comply with the 30 percent down payment requirement will likely migrate to those program. This would likely halt the re-emergence of the private securitization market.

Conclusion

OBA's partners at the American Bankers Association and a large number of consumer, real estate and civil rights groups have formed the Coalition for Sensible Housing Policy (CSHP). This coalition published a white paper on the proposed QRM rule. The white paper can be accessed at the following website: www.sensiblehousingpolicy.org/uploads/White_Paper.pdf. We join our partners and associate ourselves with that effort. OBA strongly urges the agencies to take into consideration the concerns highlighted in this white paper.

OBA stands ready to work with the agencies on the credit risk retention rule in a manner that considers the prospective of Oregon banks and the customers and communities they serve. Thank you for the opportunity to comment. If you have any questions, please feel free to contact me.

Very best regards,



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