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MID-SIZE BANK COALITION OF AMERICA

October 30, 2013

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
Docket No. OCC–2013–0010

Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551
Docket No. R-1411

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429
RIN 3064-AD74

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

Alfred M. Pollard
General Counsel
Attention: Comments/RIN 2590-AA43
Federal Housing Finance Agency
Constitution Center, (OGC) Eighth Floor
400 7th Street SW
Washington, DC 20024

Regulations Division
Office of General Counsel
Department of Housing and Urban Development
451 7th Street, SW, Room 10276
Washington, DC 20410-0500
RIN 2501-AD53

Re: Credit Risk Retention; Proposed Rule

Ladies and Gentlemen:

On behalf of the Mid-size Bank Coalition of America ("MBCA"), I am writing to provide comments on the above-referenced joint re-proposed rule ("Re-proposed Rule") published by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the U.S. Securities and Exchange Commission, and the Department of Housing and Urban Development (collectively, "the Agencies") in the Federal Register on September 20, 2013.[1]

The MBCA is a non-partisan financial and economic policy organization comprising the CEOs of mid-size banks doing business in the United States. Founded in 2010, the MBCA, with now 45 members, was formed to better represent mid-size banks (defined as having assets between approximately $10-50 billion) within the overall banking industry, and to educate lawmakers about the financial regulatory issues and policies affecting the ability of mid-size banks to compete fairly and to more fully support and contribute to the growth of the U.S. economy.

As a group, the MBCA's 45 member banks do business through more than 6,900 branches in 44 states, Washington D.C. and three U.S. territories. The MBCA's banks have combined assets currently exceeding $785 billion with an average size of $17 billion and, together, employ approximately 130,000 people. Member banks have nearly $600 billion in deposits and total loans of more than $480 billion.

The MBCA supports the Agencies' proposal to define "qualified residential mortgage" ("QRM") to mean a "qualified mortgage" ("QM") as defined in section 129C of the Truth in Lending Act (15 U.S.C. § 1639c) and the implementing regulations of the Consumer Financial Protection Bureau ("CFPB"). The MBCA does not believe that the Agencies should pursue the alternative approach that would take the QM criteria as a starting point for the QRM definition and incorporate additional standards (the "QM-plus" approach).

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[1] *Credit Risk Retention*, 78 Fed. Reg. 57928 (Sept. 20, 2013).

The MBCA agrees with the Agencies that the proposal to align the QRM definition with that of QM is sound, both as a matter of policy and from a legal standpoint. Most lenders and loan originators have put substantial effort into ensuring compliance with the CFPB's new QM rule. Aligning the definitions of QRM and QM will enable them to build on the work that they have already done, maximize efficiency, minimize disruptions typically caused by regulatory change, and help the Agencies achieve the goal of balancing heightened underwriting and appropriate risk management with the public interest in continuing access to credit.

Beyond the definition of a QRM, several factors make it extremely difficult to predict the availability of residential mortgage credit in 2014 and beyond. Although the national economy has improved since the peak of the housing crisis, long-term mortgage interest rates and housing prices have both recently experienced significant increases. Additionally, market forces and adherence to the guidelines of the government-sponsored enterprises ("GSEs") caused most mortgage lenders to tighten underwriting standards several years ago. 2013 has seen a tremendous decrease in application volume for refinances while the purchase market has normalized, albeit at levels well below the peaks from a decade earlier.

In addition to the market influences, the significant number of new CFPB mortgage regulations applicable to both originations and servicing, schedule to be effective in January 2014, require major overhauls to policies, procedures, and systems. How these changes will manifest themselves in additional costs to consumers or regulatory penalties, or as barriers to market entry, will not be appreciable until at least the middle of 2014. With these new regulations and the continued enforcement activities of the CFPB, as well as possible reform of the GSEs next year, there is simply no past data from which one can reasonably draw reliable conclusions about the future. However, aligning the definitions of QRM and QM would have less negative impact on the availability of residential mortgage credit than would either adopting the original credit risk retention proposal or applying the QM-plus approach.

We understand that the Agencies are also concerned about the markets for non-QM/QRM. Although, as stated, it is extremely difficult to predict what sort of capital will be available in the next year for all types of residential mortgage loans, including those that might be considered higher-risk, most lenders can be expected to continue to serve all potential borrowers, whether or not those individuals will be able to qualify for QMs. By setting bright lines and aligning the definitions of QM and QRM, the Agencies will help to minimize confusion and maximize clarity so that all market participants will know precisely what is, and is not, subject to certain regulatory requirements or exemptions. As the GSEs will not be purchasing

non-QM loans, such clear rules are necessary so private capital will return to the residential mortgage markets.

For the same benefits of consistency, we support incorporating the entire definition of QM into that of QRM, as opposed to excluding the provisions for GSE-eligible loans, or excluding junior-lien loans, for example. The Agencies have determined that Congress and the CFPB have properly defined QMs to represent those loans that have underwriting and product features consistent with a lower expected risk of default and that no evidence would support carving out any particular type of QM as not meeting this standard. Should the Agencies carve out certain types of QMs from the definition of QRMs, the operational benefits of aligning the two definitions would be negated and credit availability disrupted.

The QM-plus approach would complicate compliance efforts and lead to the type of inefficiencies that were the primary concern of many of those who submitted comments on the original 2011 credit risk retention proposal. The QM-plus approach is unnecessary for credit risk management and would impede access to credit, especially in low- and middle-income communities. Particularly, a 70% loan-to-value ratio, which translates into a 30% down payment requirement, would pose a daunting barrier to homeownership for most people. Requiring a 30% down payment as a criterion for a QRM is not necessary to ensure high-quality underwriting standards or to encourage appropriate risk management practices. Banks do require an appropriate down payment for a mortgage loan because prudent underwriting requires it, because investors and the GSEs demand it, and because regulators expect it. But a 30% down payment threshold for a QRM is excessive; lower down payments, combined with other underwriting criteria, are fully consistent with prudent underwriting and sound credit risk management.

Finally, because of the need to provide a mechanism for predictability in the capital markets, we support the certification requirements found in Section 13(b)(4) of the Re-proposed Rule. It is essential that investors have sufficient information made available to support the assertion that a particular asset-backed security is composed of only QRMs. We do not believe that the compliance burden of meeting this requirement will be inconsistent with the other policy, procedure and system changes being made in response to the CFPB's QM rule or otherwise to the credit risk retention rule.

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The MBCA supports the re-proposed QRM definition and opposes the QM-plus approach in the Re-proposed Rule.

Yours Truly,

Russell Goldsmith
Chairman, Mid-Size Bank Coalition of America
Chairman and CEO, City National Bank