

Borrowers of Modest Means May Find Access to Mortgage Credit Squashed by QRM Proposal

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The “qualified residential mortgage” definition and other aspects of the proposed rule on risk retention recently released by federal regulators could cripple low- and moderate-income borrowers’ access to mortgage financing, according to industry representatives and consumer advocates.

When they released the proposed rule in March, the agencies knew a narrowly defined QRM standard would be a major issue. “What impact, if any, might the proposed QRM standards have on pricing, terms and availability of non-QRM residential mortgages, including to low- and moderate income borrowers?” the proposed rule asked.

“This rule would have a devastating impact on low- and moderate-income borrowers – absolutely,” said Judy Kennedy, president of the National Association of Affordable Housing Lenders.

Mike Anderson, government affairs chairman of the National Association of Mortgage Brokers, anticipates a huge hit from the rule. Louisiana, where Anderson does business, has very low average credit scores, and the QRM requirement that borrowers have no 60-day late payments of any kind in the last two years is “going to shut out a lot of people,” he said. Anderson noted that although average credit scores are low, Louisiana has a relatively low foreclosure rate. Homebuilders are also worried about the proposal’s impact on first-time homebuyers.

“By mandating a 20 percent downpayment on qualified residential mortgages, the administration and federal regulators are excluding those without huge cash reserves – which constitutes most first-time home buyers and many middle-class households – from a chance to buy a home,” said NAHB Chairman Bob Nielsen. “Just do the math. First-time home buyers historically average 40 percent of home-buying activity. It would take an average family 12 years to scrape together a 20 percent downpayment. This plan is nothing short of an assault on homeownership that could have a long-lasting negative impact on housing for generations to come.”

One broker representative said, “This is an example of unintended consequences of the Dodd-Frank Act and how the regulators have gone past the intent of Congress.”

NAAHL’s Kennedy agreed. “When this crisis began, the first instinct on the House side was to require that mortgages had to have 20 percent down to be ‘plain vanilla.’ Then as members grew familiar with how destructive that could be, they settled on 5 percent skin in the game,” she explained.

“Then they gave the regulators permission to identify those loan products that would be soundly underwritten and so consumer-friendly that they would be exempt from the risk retention requirement,”

Kennedy added. “So it was baffling to me to see the regulators propose something that really flies in the face of what we’ve learned over the last 30 years, which is that borrowers without a lot of cash to bring to the closing table can be responsible homeowners.”

Mortgage Bankers Association President and CEO John Courson raised many of the same concerns about the “rigid and highly prescriptive nature” of the proposed rule, and also worried about how it might harm the lender community as well. “If the QRM were to be enacted as proposed, it could dramatically limit the role of independent mortgage banks and community lenders, who either don’t have the balance sheet capacity to hold loans or the capital to hold in reserve as retained risk, but have long histories of originating safe and well-underwritten mortgages,” he said.

National Association of Realtors President Ron Phipps said the rule needs to strike a balance between reducing investor risk and providing affordable mortgage credit. “Better underwriting and credit quality standards have greatly reduced risk,” he said. “Adding unnecessarily high minimum downpayment requirements will only exclude hundreds of thousands of buyers from homeownership, despite their creditworthiness and proven ability to afford the monthly payment, because of the dramatic increase in the wealth required to purchase a home.”

The banking regulators acknowledged that “any set of fixed underwriting rules likely will exclude some creditworthy borrowers.” The proposed rule noted that a borrower with substantial liquid assets might be able to sustain an unusually high debt-to-income ratio above the maximum for a QRM.

“In many cases, sound underwriting practices require judgment about the relative weight of various risk factors,” the proposed rule said. “However, incorporating all of the tradeoffs that may prudently be made as part of a secured underwriting process into a regulation would be very difficult without introducing a level of complexity and cost that could undermine any incentives for sponsors to securitize, and originators to originate, QRMs.”