From: CBC Federal Credit Union, Wesley Walton

Subject: Credit Risk Retention - Reg RR

Comments:

Greetings,

My comments center around section IV. Qualified Residential Mortgages (QRM).

106. Is the overall approach taken by the Agencies in defining a QRM appropriate?

No, the approach appears to be too weak.

"This requirement suggests that the underwriting standards and product features for QRMs should help ensure that such residential mortgages are of very high credit quality." (Bold emphasis mine)

Very high credit quality is mentioned several times in the Risk Retention Proposal. The proposal does not have specific standards, but what has been talked about appears to not reinforce Very High Credit Quality.

80% LTV; 35%DTI and a credit score of 700 are still way too low. When I read the comment below, I have concerns:

"A substantial body of evidence, both in academic literature and developed for this rulemaking, supports the view that loans that meet the minimum standards established by the Agencies have low credit risk even in stressful economic environments that combine high unemployment with sharp drops in house prices."

Oh really. If 'the Agencies' refer to Fannie Mae and Freddie Mac, I would have to disagree. Their standards would hardly qualify for Very High Credit Quality, as evidenced by the government having to take over both agencies for their failure to underwrite risk properly. I would propose that the criteria for QRM loans should significantly exceed those that have been employed by the Agencies. To start, here would be my suggestions to define Very High Credit Quality QRM loans:

60%LTV; 30% DTI and a credit score of 780.

These would establish a QRM that would be of Very High Credit Quality. If these appear to be too restrictive, it is much less disruptive to the market to establish more conservative guidelines first and then soften them later, than to establish weak guidelines first, only to have to strengthen them later, after something has failed. The final investor is looking to the standard setters to rebuild the credibility of the process.

107. What impact might the proposed rules have on the market for securitizations backed by QRM and non-QRM residential mortgage loans?

If the QRM criteria is weak, then I could see that non-QRM mortgages would be preferable because of the 'skin in the game' concept. QRM needs to be meaningful and more restrictive than current market standards.

108. 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?

I would put low and moderate income borrowers inherently out of the running for a Very High Credit Quality loan unless they met stringent standards like 60%LTV, 30% DTI and a high credit score above 780. If low and moderate income borrowers were purchasing a modest enough house, then they could meet this criteria and get the rate advantage that the QRM standard would have in the marketplace. However, if the low and moderate income borrowers are stretching to purchase a house that strains their budget, then they should rightfully not be considered a QRM loan. They would then not be the Very High Credit Quality.

109(a). The Agencies seek general comment on the overall approach of using certain longstanding HUD standards for certain definitions and standards within the QRM exemption and whether the Agencies should adopt a different approach. 109(b). Are there any other existing, transparent, and widely recognized standards that the Agencies should use for ensuring that lenders follow consistent and sound processes in determining whether a residential mortgage loan meets the qualifications for a QRM?

HUD Standards are fine.

110. The Agencies seek comment on all aspects of the proposed definition of a QRM, including the specific terms and conditions discussed in the following section.

QRM should be an easy and absolute standard. 60%LTV; 30% DTI and a credit score of 780 is a reasonable starting place. No matrix, no mitigating circumstances.

Investors want clear guidance and boundaries, not rules that can be used to 'game' the system.

111(a). The Agencies seek comment on whether mortgage guarantee insurance or other types of insurance or credit enhancements obtained at the time of origination would or would not reduce the risk of default of a residential mortgage that meets the proposed QRM criteria but for a higher adjusted LTV ratio. Commenters are requested to provide historical loan performance data or studies and other factual support for their views if possible, particularly if hey control for loan underwriting or other factors known to influence credit performance. 111(b). If the information indicates that such products would reduce the risk of default, should the LTV ratio limits be increased to account for the insurance or credit enhancement? 111(c). If so, by how much?

Let QRM be the gold standard for mortgages. Non-QRM loans should be using the things referenced above to help mitigate their own 'skin in the game'.

112(a). If the proposed QRM criteria were adjusted for the inclusion of mortgage guarantee insurance or other types of insurance or credit enhancements, what financial eligibility standards should be incorporated for mortgage insurance or financial product providers and how might those standards be monitored and enforced? 112(b). What disclosure regarding the entity would be appropriate?

I would not have any QRM criteria that would be close enough to allow for mortgage guarantee insurance.

113. Are there additional ways that the Agencies could clarify the standards applicable to QRMs to reduce the potential for uncertainty as to whether a residential mortgage loan qualifies as a QRM at origination?

Clear, simple guidelines without any allowance for mitigation. Once again - 60%LTV; 30% DTI and a credit score of 780. Let the non-QRM loans have the complexities to help mitigate risk. QRM loans should not be the most common loan funded in the market. If the Agencies are expected to be 10% of the market, then QRM loans should be about the same level - 10% of the market. Non-QRM loans should make up over 50% of the market and mortgage originators should keep their 5% of the loan, their 'skin in the game', to keep the market honest and to help balance risk. Using QRM as a loophole to shift risk again to the investor is not what the legislation intended.

Sincerely,

Wesley Walton
CBC Federal Credit Union