Federal Advisory Council

On May 13, 2011, the Federal Advisory Council met with the Board of Governors to discuss standards for qualified residential mortgages under the proposed interagency rule on risk retention (Docket No. R-1411). The Council provided written views, which are provided below.

What is the Council's view of the recently proposed QRM [qualified residential mortgage] and risk-retention standards?

- The majority of Council Members believe that the recently proposed QRM requirements are defined too narrowly.
- The proposed QRM exemption imposes minimum down payments on purchase mortgages of 20 percent and equity requirements of 25 to 30 percent for refinancing, ignoring the fact that well-underwritten, low down payment loans have been a significant and safe part of the mortgage finance system for decades.
- These proposed QRM underwriting standards would likely favor borrowers with higher incomes and wealth, while requiring low- to-moderate income borrowers to enter the non-QRM market, which will likely have higher rates due to the risk-retention requirements.
- Narrowly defined QRM requirements combined with higher rates in the non-QRM market will reduce the population of borrowers that are eligible for home purchases and refinance transactions, further delaying recovery in the housing market.
- For as long as the GSEs [government-sponsored enterprises] remain in government conservatorship, Council Members agree that loans sold to Fannie Mae and Freddie Mac should be exempt from risk-retention requirements, provided this does not delay an orderly exit of the GSEs from the mortgage market.