Denali Alaskan
FEDERAL CREDIT UNION

Anchorage • Eagle River • Fairbanks • Juneau • Wasilla

August 1, 2011

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Proposed Rule on Risk Retention and Qualified Residential Mortgages
Docket No.: 2011-1411

To Whom It May Concern:

Denali Alaskan Federal Credit Union supports the efforts of the Federal Reserve to improve accountability in the mortgage lending industry. We are concerned, however, that the unintended consequences of this proposed rule will create an unfair playing field among financial institutions, increase mortgage prices, and decrease availability to consumers seeking home loans. Additionally, the definition provided for a qualified residential mortgage ("QRM") is too narrowly tailored and will adversely impact the secondary mortgage market.

Credit unions did not contribute to the recent mortgage crisis and we, therefore, appreciate the exclusion of credit unions from the direct application of this rule. The problem remains, however, that credit unions will not be able to sell properly assessed home loans to other financial institutions if the rule goes into effect in its current form. Larger financial institutions that purchase mortgages from credit unions will incur greater expenses in the sale of mortgages to securitizers, as they will need to maintain greater reserves in order to satisfy the risk retention requirements of the rule. This cost will, without question, be passed to the institutions making the loans. But, larger financial institutions that operate at branch level as a lender and at a corporate level as a seller will have the option of where to allocate the additional expense of mortgage selling. For example, the institution that our credit union currently sells to also provides home loans at a retail level. That institution can choose to pass greater expenses to us and less to its own lending department. This practice will make the home loan business far more expensive for a credit union than a bank in most cases.

Our credit union has not yet addressed how we would handle the increased costs of making home loans. We will, of course, do everything possible to avoid passing this cost on to consumers. Ultimately, it may simply become too expensive for credit unions to provide home loans to their members at current rates. Credit unions could raise rates, with the hope that member loyalty would support mortgage lending, but economic realities suggest this is an unlikely outcome.

440 E. 36th Avenue, Anchorage, Alaska 99503
907/257-7200 • 800/764-1123
www.denalifcu.org

The proposed rule also creates an unjustifiably narrow definition of a QRM. Specifically, the required qualification that a QRM must have a minimum down payment of 20 percent is unduly burdensome. Additionally, the 80 percent loan-to-value ratio is incredibly high, especially considering the fact that financial institutions may not include mortgage insurance as part of this calculation. The majority of low-risk loans do not meet this qualification and it imposes needless hardships on consumers that could otherwise qualify for home loans. The hardship arises from a lender's potential inability to sell non-QRM loans at prices that can support the costs of a lending program. QRMs will become high value products and conceivably push all other mortgages out of the secondary market. If the mortgages cannot be sold, the loans cannot be made. The effects of the QRM standard, as it stands, have far-reaching implications and the rule should not be pushed forward, in any form, without a comprehensive study as to its effects.

The recent financial turmoil caused by the subprime mortgage crisis has shed light on many flaws in the financial industry. It is important that industry leaders and legislators work together to create greater incentives for responsible lending. But, in this case, the ultimate winners and losers will become those that we never anticipated nor intended. Most importantly, the rule, as it stands, will hurt consumers by decreasing the availability of home loans and chilling economic recovery. Additionally, larger banks will be placed in a more favorable position than credit unions and smaller banks. And moreover, the possible effects on the secondary mortgage market have such tremendous potential that we cannot support the rule without a more detailed study regarding those yet unascertainable consequences. In the end, the regulation will leave the nation with a less competitive marketplace, less creditworthy people buying homes and the possible exclusion of credit unions from the home lending practice.

Sincerely,

William Baynard
Assistant Vice President, Compliance
Denali Alaskan Federal Credit Union