AlaskaUSA
Federal Credit Union®

October 15, 2013

Board of Governors of the Federal Reserve System
Robert deV. Frierson, Secretary
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

Re: Qualified Residential Mortgage (QRM) Credit Risk Retention – Revised Proposed Rule
12 CFR Part 244 - Docket No. R-1411 - RIN 7100-AD70

Dear Robert deV. Frierson:

As you know, in April 2011, the agencies published a joint notice of proposed rulemaking to amend Section 15G of the Securities and Exchange Act, as required by the Dodd-Frank Act. The current Qualified Mortgage (QM) rule generally prohibits QM loans from having features such as negative amortization, interest-only payments, balloon features, or significant interest rate increases. Additionally, the original proposed QRM definition included underwriting standards, such as a down payment requirement of 20 percent in the case of a purchase transaction, maximum loan-to-value (LTV) ratios of 75% on rate and term refinance loans, and 70% LTV for cash-out refinance loans, maximum front and back-end debt-to-income ratios of 28 and 36 percent, respectively, as well as credit history criteria and requirements. The changes made with the introduction of QM and the recent proposed alignment of QM and QRM are appropriate and necessary. However, we strongly believe that the definition of a QM, QRM and QM-Plus be combined into a single QM definition. In addition, the changes suggested in paragraph 3 below will reduce uncertainty, confusion and redundancy within the lending industry, and maintain available credit to qualified borrowers.

Underwriting standards for conforming mortgage products historically promulgated by FNMA, FHMLC, FHA, VA, and the USDA, are extensive and have proven to be extremely elastic and sound. These standards did not create the types of mortgages that led to the financial crisis. In fact, it's clear that the absence of appropriate underwriting associated with non-standard mortgage products, sold to investors with Fannie Mae and Freddie Mac guarantees, led to massive delinquencies and foreclosures and caused the real estate market collapse and subsequent aftershocks to the economy.

The original QRM proposal, along with the revised QRM - Credit Risk Retention and QM-Plus proposals, will reduce available credit, including for the underserved, and likely result in disparate impact to low income borrowers, disrupting decades of progress with respect to mortgage lending in the country. While the revised proposed rule attempts to align the definitions of QM and QRM, it fails to address the overreaching establishment of underwriting restrictions imposed by QM without fully incorporating other key aspects of QM. Alaska USA recommends that the revised QRM proposal incorporate the following items:

- In order to provide a truly "comparable" Good Faith Estimate (GFE) to consumers, fees from affiliated companies that would be excluded for nonaffiliated companies should not be added into the APR calculation.

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- Total debt-to-income (DTI) ratio should not exceed 43%, unless industry accepted compensating factors are available to warrant a higher DTI. These compensating factors are historically documented, and promulgated by secondary market GSEs, guarantors and investors.
- A loan be considered a QM/QRM "permanently" if it is eligible for purchase, guarantee, or insurance by Fannie Mae, Freddie Mac, HUD, VA, USDA, or Rural Housing Service (RHS) at the time the loan is originated. This would eliminate the temporary QM status and expiration even if Fannie Mae or Freddie Mac exits conservatorship or any government agency defines QM for their loans under their own rules.
- Both non-higher priced QMs and higher-priced QMs be eligible as QRMs, without distinction, and be allowed to be pooled in the same security.

If the changes as described above are incorporated into the definition of QM/QRM, we believe a balance would be struck between high quality underwriting, appropriate risk management, and continued access to credit by creditworthy borrowers. Even though the CFPB has stated that non-QM loans can and should be made, there is neither precedent nor empirical data to suggest that there would not be significant litigation risk to lenders who make rebuttable presumptive loans to hold in their portfolio. What's more, making non-QM/QRM loans may be construed by regulators as serious litigation risk and might be considered an unsafe lending practice.

We believe investors, securitizers and the primary market will probably not purchase or make non-QM/QRM loans unless there is no other alternative. This would have a negative impact on many lenders, as well as for consumers. Equally, if a lender must make a non-QM/QRM loan, a lender would most likely retain 100% of the loan and the 5% risk retention requirement becomes a moot point. Alternatively, if a lender's intention is to sell or securitize loans at some point in the future, there is a significant burden in retaining 5%, especially in light of recent introductions of Basel III and asset risk weighting, adding capital constraints to balance sheets in order to meet those requirements. Moreover, the introduction of QM-Plus, another iteration of QM/QRM, serves only to compound an already overly complicated environment to a point that it will further restrict access to credit, and produce more unintended consequences.

We wish to express our appreciation for the opportunity to comment on the proposed QRM – Credit Risk Retention revised proposal, and are hopeful that a sustainable solution can be reached that benefits both borrowers and the lending industry as a whole.

Sincerely,

Jerry Reed
Chief Lending Officer