

# *Community Mortgage Banking Project*

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March 22, 2010

The Honorable Christopher J. Dodd  
Chairman  
Senate Committee On Banking, Housing and Urban Affairs  
534 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable Richard C. Shelby  
Ranking Member  
Senate Committee On Banking, Housing and Urban Affairs  
534 Dirksen Senate Office Building  
Washington, DC 20510

RE: Risk Retention Provisions in Restoring American Financial Stability Act of 2010

Dear Chairman Dodd and Ranking Member Shelby:

The undersigned companies – all members of the Community Mortgage Banking Project – are writing to you regarding the Restoring American Financial Stability Act of 2010 that we understand the Senate Banking Committee will be acting on this week.

The Community Mortgage Banking Project represents community-based lenders, an industry segment that accounts for one-third of all residential mortgage loans originated in the U.S. Our members are primarily privately owned mortgage banking companies, but our membership includes subsidiaries and affiliates of community banks.

We are particularly concerned about the provisions of this bill that would require lenders and securitizers to retain a portion of the risk on all loans sold through securitizations (Subtitle D of Title IX). We are concerned about the risk retention provision on two levels.

First, risk retention will reduce access and increase the cost of credit. According to a recent JP Morgan Securities analysis, risk retention could cause interest rates on loans funded by securitization to increase by up to 300 basis points – today's 5% mortgages could become 8% mortgages. Across-the-board risk retention requirements will push mortgage costs higher for everyone, even for borrowers with responsible credit histories seeking safe, stable mortgage products – people and products that had nothing to do with the current crisis.

Healthy securitization markets are critical to the recovery of our fragile credit markets. Securitization is especially important for our housing market, where about 7 of 10 mortgages are securitized. Banks simply do not have the liquidity or the capital to hold every mortgage they make on their balance sheet. The mortgage securitization process benefits consumers and reduces overall risk in the financial system. Without a robust securitization market, the availability of fixed rate mortgages will be sharply curtailed, and the cost would certainly be higher. While policymakers, small businesses and homebuyers all clamor for more liquidity from the lending industry, the proposed risk retention provisions of this bill are more likely to exacerbate credit market conditions than to improve them.

Second, risk retention is not likely to produce the improved underwriting that it purports to encourage. We understand that risk retention is intended to ensure everyone has skin-in-the-game and will therefore be more careful in underwriting loans. As community-based mortgage lenders we stand behind the representations and warranties on every loan we originate. Our companies have survived the mortgage market problems because they stuck to strong underwriting standards, and when errors were made, we had the financial capacity to make good on those representations and warranties. So we understand risk retention. However, the connection between an arbitrary, across-the-board risk retention standard and improved underwriting is tenuous at best. The Risk Management Association commented on a recent FDIC proposal to impose 5% risk retention on mortgage securitizations as follows:

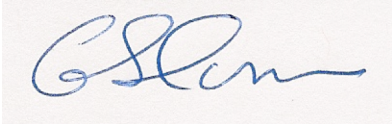
“A rule setting a minimum first-dollar [retention] level might discourage banks from originating and securitizing low risk assets...exactly the opposite of what is needed in the context of recovery of the credit markets and improvement in bank soundness.” [February 22, 2010 comment letter, FDIC RIN # 3064-AD55, page 5]

At the same time, we would also note that many securitizers of risky mortgages during the boom years retained significant portions of the risk on the securities they issued. Clearly, risk retention led to their demise, but it did not prevent their high-risk lending strategies. The bottom line is that risk retention is no substitute for good underwriting.

The Community Mortgage Banking Project urges the Committee to consider more direct reform that address the underwriting issues head on, and focuses risk retention only on risky loans. The CMBP recently collaborated on a study that examined the performance of more than 20 million mortgages originated between 2002 and 2008. The study showed that simply following traditional, common-sense mortgage underwriting standards – such as documenting income and setting reasonable debt-to-income ratios – would have produced mortgage defaults that were one-third lower than what we have experienced over the past few years. We urge the committee to support securitization reforms that require regulators to establish clear standards for “qualified mortgages” that would be exempt from risk retention. This direct approach will create strong incentives for the origination of lower risk loans with traditional, back-to-basics underwriting standards. Risk

retention would then be focused on risky loans. The qualified mortgage standard will strengthen underwriting and sound lending behavior within the primary market and attract private capital back to the secondary mortgage market. It would keep availability of credit up and costs down for creditworthy borrowers seeking traditional loans with commonsense underwriting.

Sincerely,

A handwritten signature in blue ink, appearing to read "Glen Corso", is centered on a light-colored rectangular background.

Glen Corso  
Managing Director