

COMMUNITY MORTGAGE BANKING PROJECT

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Risk Retention will increase cost of Credit *Group tells Senate Banking Committee in letter*

March 24, 2010, Alexandria Virginia - The Community Mortgage Banking Project (CMBP) told the Senate Banking Committee that the risk retention provisions contained in the Restoring American Financial Stability Act of 2010 will increase the cost of mortgage credit potentially as much as 3 percentage points, according to a JP Morgan Chase study, thus pushing today's 5% mortgage rates to 8%. CMBP urged the Committee to exempt from risk retention loans that follow "common-sense underwriting standards" that have been proven to be much safe for borrowers and mortgage investors alike. The CMBP sent a letter to Committee Chairman Christopher Dodd and Ranking Member Richard Shelby following the Committee action on the bill.

This increase in the cost of mortgages would affect all mortgage borrowers, the CMBP letter stated, "...even for borrowers with responsible credit histories seeking safe, stable mortgage products – people and products that had nothing to do with the current crisis."

The letter went on to point out that the availability of fixed rate mortgages depended upon healthy securitization markets, which have financed 7 out of every 10 existing mortgages. Banks and thrifts do not have the liquidity or the capital to finance the entire mortgage market and cannot hold fixed rates mortgages in their portfolios because of the short-term nature of their own financing.

CMBP noted that "...risk retention is not likely to produce the improved underwriting that it purports to encourage." Stating that CMBP members understand the concept of having originators be at risk for the loans they create, since many CMBP members have made good financially for representations and warranties on loans they originated in the 2002-08 time period, CMBP urged the Committee "...to consider more direct reform that addresses the underwriting issues head on, and focuses risk retention only on risky loans."

The letter cited a recent study CMBP collaborated on that examined the performance of more than 20 million mortgages originated between 2002 and 2008 that showed that loans that followed tradition, common-sense mortgage

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underwriting standards – such as documenting income and setting reasonable debt-to-income ratios – produced defaults that were one-third those of riskier loans that did not follow these standards. The Committee was urged to incorporate a “qualified mortgage exemption” to encourage the origination of these types of stable mortgages that benefit borrowers and constitute sound investments for mortgage investors.

Community Mortgage Banking Project is a public policy organization representing the interests of independent mortgage bankers. For decades, the community-based mortgage banker has delivered value and choice to consumers by leveraging local market expertise, quality service, and lower costs for borrowers. The CMBP supports financial market reforms that promote consumer access, borrower and investor transparency, local competition and choice, and a value added mortgage chain. For more visit www.communitymortgagebankingproject.com.