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CHLA: CFPB SHOULD USE QM PATCH RULEMAKING TO HELP FACILITATE A GSE UTILITY MODEL

CHLA Also Releases Its Own GSE Reform Plan

WASHINGTON - In its comment letter today to the CFPB on the January 2021 scheduled expiration of the so-called GSE QM Patch, the Community Home Lenders Association (CHLA) today proposed that the CFPB use the rulemaking to grant authority to the Federal Housing Finance Agency (FHFA) to create its own QM standards after Fannie Mae and Freddie Mac exit conservatorship, in order to facilitate a Utility Model for GSE reform.

"The CFPB should augment any action it takes to extend, replace, or expand the QM Patch by granting the Federal Housing Finance Agency (FHFA) authority to modify that standard for loans purchased by Fannie Mae and Freddie Mac, in order to facilitate a "Utility Model" for Fannie and Freddie for the period after they exit conservatorship," the CHLA letter states.

CHLA also released today its one-page GSE reform plan, which notes that most of the needed reforms to Fannie and Freddie have been carried out, except for the retention of capital. CHLA's plan calls for additional administrative actions, principally to recapitalize Fannie and Freddie and to create a Utility Model for their regulation by FHFA, using the QM Patch delegated authority proposal CHLA is unveiling today.

The Administration is imminently expected to announce its own plan to reform Fannie and Freddie.

CHLA and many other organizations support a Utility Model, in which no new charters are created and Fannie and Freddie act serve as a securitization conduit, with third party origination and broad origination competition. An important part of a Utility Model is to ensure Fannie and Freddie are purchasing sound loans, once FHFA's conservatorship authority expires.

"Giving FHFA authority to set QM standards for Fannie and Freddie after they exit conservatorship is the best mechanism to ensure the GSEs meet their statutory access to credit responsibilities, without going off the rails and purchasing risky loans as they did during the subprime crisis," the CHLA concluded.

The CHLA letter also cited two other major recommendations in its comment letter:

- ***The overriding priority for the rulemaking should be for the CFPB to ensure that authority for the GSEs to purchase an estimated \$260 billion in annual well-performing loans under the QM Patch shall continue, to ensure adequate access to mortgage credit.***

- ***Proposals to extend the QM Patch to non-GSE loans, such as raising the DTI cap, establishing some benchmark against the Average Prime Offer Rate (APOR), or some combination thereof, may be worthy of consideration; however, a complete elimination of any DTI test should be rejected, due to the risk of a return to subprime era practices."***

In doing so, CHLA pushed back against proposals to eliminate any DTI consideration in QM, citing the risk of a return of some of the mortgage practices of the subprime era.