Scotsman Guide

# Q&A: Community lenders believe GSE patch isn't likely to go away

Last month, the Consumer Financial Protection Bureau (CFPB) signaled that it did not plan to extend the so-called "GSE patch." Since the 2014 adoption of the qualified mortgage rule, the patch has temporarily enabled the government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac to issue loans that exceed a 43% debt-to-income (DTI) ratio.

The patch is set to expire on Jan. 10, 2021. Scott Olson, executive director of the Community Home Lenders Association, recently spoke with Scotsman Guide News about the possible fallout for the mortgage industry if a compromise is not reached.

**What do you make of the CFPB's announcement signaling the potential end of the GSE patch?**

The impression that we get is that the CFPB and the GSEs believe that whatever is in place to provide exemptions from a QM (qualified mortgage) shouldn't just apply to Fannie and Freddie. There's a strong hope among people in the industry and in consumer groups that they will replace the patch with a framework that somewhat covers the same ground, but then would apply not just to the GSEs, but would (also) apply to the private sector.

**What if the patch is allowed to expire without any changes?**

Obviously, that approach would be really bad for access to credit. CoreLogic did this report saying that the patch loans accounted for something like $260 billion in mortgage loans last year. So, it could have real profound impacts on the housing market and housing prices if they just disappear. And for that reason, I would say unequivocally the biggest priority for the Community Home Lenders Association is that you don't let it expire without a replacement approach that accomplishes the same goals. That's the No. 1 priority.

**Wouldn't some borrowers simply migrate to the Federal Housing Administration (FHA) program, which has no cap?**

Some percentage would. I don't think anyone is saying that there's a benefit to doing away with this just to have [borrowers] migrate over to FHA. So, no one, I think, can sit here and tell you what percentage of those patch loans currently being made will disappear and what percentage would go to FHA. But the ones that are going to disappear, we think is bad for the market.

**You don’t see an ongoing risk issuing loans with higher debt loads?**

The whole point of QM was to make sure that the loans are underwritten in a sound financial matter. The fact is that [the GSEs] have made significant amounts of these loans [above 43% DTI] and they seem to be performing well. Obviously, they don't seem to be a problem, which would be a strong argument for not getting rid of this entirely.

**What do you think the CFPB will eventually do?**

Well, this is complicated and to do this correctly, they might even have to do a short-term extension to give them time to finalize what it is they're going to replace this with. But I think the betting out there is that it's more likely than not that it will be replaced. It’s not likely that it's simply going to expire. When people talk about a level playing field, they're not really talking about getting rid of [the patch] entirely. They're saying that whatever is acceptable to Fannie and Freddie to do, we should allow the private sector to do.

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