

ALTA NEWS

**AMERICAN
LAND TITLE
ASSOCIATION**

Contact: Jeremy Yohe
Office: 202-261-2938
Cell: 202-590-8361
E-mail: jyohe@alta.org



For Immediate Release

American Land Title Association Warns QRM Proposal Fails to Promote Sound Lending Practices

Washington, D.C., March 30, 2011 — The federal government’s attempt to promote high quality mortgage loans through its "qualified residential mortgages" will erode collateral underwriting standards and drastically affect access to affordable loans for creditworthy Americans, according to the [American Land Title Association](#) (ALTA).

The Department of Housing and Urban Development, Federal Deposit Insurance Corp., Federal Housing Finance Agency, Federal Reserve, Office of the Comptroller of the Currency, and the U.S. Securities and Exchange Commission, are putting the final touches on new risk retention regulation required under 2010’s financial regulatory reform law, the Dodd-Frank Wall Street Reform and Consumer Protection Act. The law requires the establishment of rules for lenders that securitize mortgage loans to retain 5 percent of the credit risk for loans sold to the secondary market unless the mortgage is a qualified residential mortgage (QRM).

The justification of qualified residential mortgages is to generate a finance structure that encourages responsible lending and borrowing. However, ALTA believes that the proposed regulation misses the mark because it does not require lenders to undertake commonsense underwriting steps to identify and establish who possesses the legal right to the property.

“Underwriting the real property that will serve as collateral for the mortgage loan is one of the most fundamental parts of the underwriting process and can be achieved by utilizing a title search backed by a title insurance policy to investigate, identify, and analyze the state of title to the collateral, thus reducing risk of loss for investors,” said Kurt Pfothenauer, ALTA’s chief executive officer. “We can’t allow the integrity of collateral to be conceded by a race to the bottom. Instead of trying to pick winners and losers in the future mortgage market, we should work to identify and support the underwriting and product features that result in a lower risk of default and loss.”

Further, ALTA believes that a well designed QRM can maximize its potential by promoting safe lending in the broad mortgage market by generating uniform, national standards, to protect a greater percentage of mortgage applicants and encompassing the widest possible range of mortgage products so that the maximum number of qualified buyers has access to homeownership. This proposal does the opposite and disqualifies a significant amount of creditworthy borrowers from the chance of owning a home.

“By proposing an artificially narrow QRM and requiring a minimum 20 percent down payment, millions of creditworthy borrowers will only be eligible for mortgages with higher interest rates and fees and without the protections against risky loan features,” Pfothenauer said. “Central to facilitating a housing and economic recovery is ensuring access to conventional mortgage credit for all qualified buyers and refinancers, including low- and moderate-income households, minority families, and first-time buyers, while preserving high quality, empirically sound underwriting and product standards.”

The QRM will shape the future of the mortgage market by determining the types of mortgages commonly available to borrowers. The Dodd-Frank law exempts FHA and VA loans from the risk retention requirement and the proposed risk retention rules will not apply to Fannie Mae and Freddie Mac while they remain in conservatorship.

“This proposal will move a substantial amount of business from the private sector to the government driving more borrowers to the FHA,” Pfothenauer said. “It could also mean further consolidation among lenders, thus disrupting competition in the mortgage industry.”

The QRM proposal will be published in the Federal Register. There is a 60-day public comment period before the agencies make a final decision.

About ALTA

The [American Land Title Association](#), founded in 1907, is a national trade association representing more than 3,800 title insurance companies, title agents, independent abstractors, title searchers, and attorneys. With offices throughout the United States, ALTA members conduct title searches, examinations, closings, and issue title insurance that protects real property owners and mortgage lenders against losses from defects in titles.

(###)