The Impact of the
Qualified Residential Mortgage Requirements (QRM)
On the
Housing Industry and an Alternative Approach for Quality Lending Standards

One Source Credit Reporting LLC is a small woman-owned credit reporting agency, located in Houston, TX. We have been in business since Dec 1996. Our source of revenue is through the reselling of credit reports, especially the TriMerge to the mortgage lending industry. As you well know, requiring a 20% down payment will "kill" any hope for the average person to ever be able to afford a home. In my opinion a mortgage loan should be based on "good credit"and if they qualify with good credit, no down payment should be required, plain and simple. Give the potential average home buyer an incentive and a fighting chance to own their home.

The Qualified Residential Mortgage (QRM) proposal presents potential needless devastation to the housing industry, and the United States national economy at a time when both are struggling to return to stability. In particular, the requirement referred to as "skin in the game", the retention of a five percent credit risk for mortgage loans originated without criteria set for the "Qualified" loans (comprised of large down payments of up to 20%, strict debt to income ratios, and other overly stringent underwriting standards), would produce a barrier to entry into the mortgage market for many Americans. The proposed QRM program would set up a two tier mortgage origination system, one of preferred rates and easy access to mortgages for the financially privileged and another that is so restrictive it would create an unwarranted elimination of the dream of home ownership for many Americans.

A study of the mortgage industry prior to the decade leading up to the financial crisis, reveals quality loans were underwritten with much less restrictive standards than those outlined in the QRM, which proved high re-payment performance, even through economic downturns. These were loans with zero to less than 10% down payments with high repayment records. One of the best examples of this is the performance of loans made by the Department of Housing and Urban Development's (HUD) Federal Housing Authority (FHA) and Veterans' Administration (VA), in which down payments of three percent or less are common and default rates are very low compared to default rates of other loan types that originated during the same time period of the loans that led to the financial crisis.

One of the issues that led to the financial crisis that has yet to be addressed is a single document that was a common denominator in every toxic loan in the industry meltdown, the consumer's credit report. It is the type of credit report deemed as a preliminary report for prequalification purposes only and substandard as documentation for an actual loan before massive changes swept the industry in the mid 1990's. It is also the same type of credit report used to document a borrower's credit information that contributed to the massive failure of CitiCorp Mortgage in the late 1980's. If we ignore history, we are doomed to repeat the same mistake regarding substandard credit documentation that will lead to future mortgage losses.

This substandard credit report was brought about by the drastic underwriting changes occurring in the mid 1990's. Loan underwriting moved from a manual process to an automated one via use of Fannie Mae's Desktop Originator/Desktop Underwriter (DO/DU) and Freddie Mac's Loan

Prospector (LP), using credit score driven risk based pricing models to obtain loan approvals in less than a minute. To make the new automated processes work, the data inputs had to be stripped down, abandoning time tested credit reporting standards that had weathered economic downturns, for a report that could be produced in less than ten seconds.

While many of the modifications to industry standards required for the implementation of the automated underwriting systems worked well, an honest review of the performance of the stripped down credit documentation standards and the new processes that had to be developed to make it "work," raised questions about its reliability. This drastic change in the process for credit evaluation can also be looked at as having a crucial role in the financial crisis by enabling bad lending decisions and the opportunity for suspect lending programs.

Many consumers' credit histories were improperly documented with errors and missing data elements that, when applied to a credit score and risk based pricing model, allowed them to be pushed into higher cost loans that proved to be unsustainable. As the demand for these loans grew, more products were designed for this growing segment with increasingly permissive loan criteria. Other consumers' credit profiles made them look better than their actual credit risks. They were encouraged by the industry itself to borrow beyond their means and to cash in on the "hot" housing market. This fateful recipe created a time bomb that spilled tragically across our nation in a manner in which we are now all too familiar.

Fortunately, there is a simple solution for rectifying these credit reporting issues. It has two distinctive elements that succinctly address the unique challenges of this industry.

First, make sure the "***Right Report for the Right Person***" is used to properly document their complete credit history dictated by the specific credit needs of that individual. To accomplish this efficiently the solution utilizes a hybrid approach to mortgage credit documentation that maximizes the best aspects of the automated underwriting process. This solution allows for good credit loans to pass through the system with the speed and efficiency it was designed to deliver, while heeding the warnings when the credit report show signs of risk. When specific problematic credit circumstances are present in an individual's credit file, some of the time tested, fraud preventive applications from yesteryear need to be applied to assure the credit report offers the most complete and accurate portrayal of the consumer's credit history.

Second, eliminate the conflict of interest in credit reporting industry. While Congress and the FTC have taken steps to reduce the harm from the conflicts of interest between the appraisal industry and the mortgage originators and the commercial rating agencies and the companies whose bonds they are rating, there is still a conflict yet to be addressed. That is the one created when the mortgage originator owns or has an interest in the credit reporting agency issuing the report on the consumer they are financing. Just like the property appraisals, the credit report should be "***Conflict Free***".

By changing these issues in the credit reporting industry, you will have created the most comprehensive credit investigation process possible. One that is free of conflicts of interest includes the often currently missing data elements from the system in use today. When completed, consumers will gain a better understanding of their own financial profile and have input into the credit reporting process; a process that includes a more competitive cost structure than the market provides today. ***"The Right Report, for the Right Person – Conflict Free" .***

As a member of the National Credit Reporting Association, Inc (NCRA) we support their position and encourage you to consider it carefully as a solution for improved mortgage lending standards.

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