

United States Senate

COMMITTEES:
BANKING, HOUSING
AND URBAN AFFAIRS
FOREIGN RELATIONS
ENERGY AND NATURAL RESOURCES
SPECIAL COMMITTEE ON AGING

June 21, 2011

Honorable Timothy F. Geithner
Secretary
Department of the Treasury
1500 Pennsylvania Ave NW
Washington, DC 20220

Dear Secretary Geithner:

I am writing to you today to express my concerns with the initial draft proposal for the Qualified Residential Mortgage (“QRM”) rule. My comments come in an environment where home prices remain weak, and the prospect for a “double-dip” in housing prices is very real.

The proposed QRM rule calls for extensive changes in underwriting criteria for residential mortgage loans. I very much support a return to more prudent underwriting standards than those which prevailed from the years 2003-2007. However, I do not believe risk retention, especially as currently written, is the right approach. During the Dodd-Frank debate, I proposed an amendment that would have removed the risk retention statute entirely and replaced it with prudent underwriting standards. My amendment was not adopted, and the statutory language that was ultimately included in Dodd-Frank provided incredibly broad discretion to the regulators in structuring risk retention and defining a QRM. Before QRM rules are finalized, I urge you to weigh the impact of this pro-cyclical regulation on the housing market’s ability to recover.

With the broader economy in mind, I believe that improvements to the proposed QRM rule should be considered. For example, while rules limiting negative amortization of payments or structures that include significant interest rate shocks make sense, a gradual phase-in approach for these rules would be within the statutory guidelines and might have a more muted impact on home prices at this time. Additionally, a rule that allows for a more sophisticated trade-off between down payment and other risk mitigating factors such as documentation type or credit score would still materially improve underwriting quality but would not represent such a blunt change to market conditions.

The legislative text of the QRM statute in the Dodd-Frank Act takes up less than one half of one page. The statute provides regulators with a tremendous amount of discretion; too much, in fact, in my view. Within the wide parameters of this new law, I encourage you to ensure that the economic costs of these regulations are minimalized.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Corker", with a long horizontal flourish extending to the right.

Bob Corker
United States Senator

cc:

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