Response to CoreLogic Analysis of Qualified Mortgage (QM) Standards

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The recently released CoreLogic report "The Mortgage Market Impact of Qualified Mortgage Regulation" has received a lot of attention due to its finding that 48 percent of the mortgage market would not qualify as a "safe loan" under new Qualified Mortgage (QM) guidelines.

CoreLogic uses a "waterfall" analysis to estimate the proportion of 2010 mortgage originations that do not meet one or more of the QM criteria. While a waterfall approach is a reasonable methodology for estimating the proportion of recent originations that fall outside of QM standards, there are problems both with the specifics of CoreLogic's model and its assumptions about the expiration of the GSE exemption that significantly undercut the usefulness of its estimates of the impact of the QM rule.

- ***Removes Loans with Credit Scores less than 640*:** As part of estimating the impact of QM, CoreLogic included a restriction on credit scores. Specifically, the waterfall analysis first removes loans with credit scores below 640 "because they resemble subprime loans." In fact, five percent of originations are removed solely based on this criterion. This exclusion is not warranted because the QM guidelines do not place any restrictions on a borrower credit score.[1]

- ***Assumes that borrowers who received loan products with prohibited QM features would not be able to access QM-eligible loan products in the future:*** The other waterfall layers used to estimate the QM impact are: total debt-to-income (DTI) ratio over 43 percent; whether the loan was negatively amortizing, balloon or interest only; low- or no-documentation; and loan terms of greater than 30 years. These restrictions result in exclusions of 24 percent, 1 percent, 16 percent, and 2 percent respectively. Based on this analysis, while it might be reasonable for the report to estimate that 43 percent of 2010 originations did not meet these new QM guidelines, it is *not* reasonable to infer that none of these borrowers could have received QM loans if the rule had been in place in 2010. While having a high DTI may be a difficult barrier that many borrowers cannot overcome, the disqualifying loan terms, such as negative amortization options or terms of greater than 30- years, can easily be avoided in most cases by simply

[1] On the one hand, the report seems to acknowledge that credit score is not a QM parameter, referring to it as a "non-QM layer" on page 3. However, the report still includes it as a "remaining QM rule" in footnote 6 and in the overall QM impact calculation.

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- Re-structuring the loans into amortizing 30 year loans. Similarly, most borrowers who received no-doc or low-doc loans in 2010, the origination year analyzed in the report, likely could have documented their incomes. Therefore, the inference that none of the 19 percent of borrowers that had disqualifying loan products could have received QM loans is unwarranted.

- ***Assumes the GSE exemption expires:*** As the report recognizes, most of the 24 percent of loans to borrowers with high DTIs are currently being made by GSEs or insured by FHA and these loans automatically qualify as QM under a temporary exemption (up to seven years). Indeed, the report acknowledges that the impact of the QM rule on loans currently being made would be" minor". Given the uncertainties concerning GSE reform and mortgage finance that will need to be resolved over the next seven years, it is not at all clear that the temporary exemption will in fact end in seven years.

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