

# The Charlotte Observer

## **Hagan amendment crucial to protecting small, local lenders**

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From Thad Woodard, president and CEO of the North Carolina Bankers Association:

There is a lot of talk in Washington about Wall Street reform. Congress is negotiating a comprehensive regulatory reform bill that aims to prevent mistakes of the past from being repeated.

For many people, despite recent market volatility, homeownership is the most reliable path toward personal wealth. This remains true despite the fact that it was the housing market that caused the downfall. In fact, getting back on path requires a return to the days of sound, prudent mortgage making where documentation and certain qualifications were required. Recently, Sen. Kay Hagan, D-N.C., along with Sens. Mary Landrieu, D-La., and Johnny Isakson, D-Ga., introduced an amendment targeted directly at the heart of the problem: lax mortgage underwriting.

The amendment is a win-win for homebuyers and lenders by helping to prevent new costs for people who weren't part of the problem. It will ensure community mortgage banks remain competitive with the mega-lenders that some consider to be "too big too fail."

Under the original Senate bill, loan originators and securitizers are required to retain 5 percent of the credit risk on all loans - \$5,000 for every \$100,000 loaned. This would raise the cost and reduce the availability of mortgage credit for all borrowers because lenders will pass new costs on to consumers.

The Landrieu-Hagan-Isakson amendment rectifies this troubling issue by directing regulators to classify and exempt from the risk retention requirements a category of "qualified mortgages," or loans that meet strong federal underwriting standards and have been historically proven to produce low levels of default and foreclosure. For example, qualified mortgages would require clear and thorough documentation detailing a loan applicant's current and past income, down payment, mortgage insurance if required, and other important factors.

All mortgages that do not meet this definition would be subject to the risk retention requirements. By making it more costly to originate high-risk loans, the amendment incentivizes lenders to adopt the highest standards, which is the goal of risk retention.

The amendment accomplishes the objective of better underwriting, but avoids the costs imposed on responsible borrowers with clean credit histories. Consumers and businesses struggling today to get credit should be protected, not reprimanded.

Without this amendment, the legislation would severely limit small, community-based banks' and mortgage lenders' ability to originate prudent mortgages, a critical component of recovery. Community banks, credit unions and local mortgage companies would face

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severe liquidity and balance sheet issues and be forced to curtail their lending and may even be forced to close. The result would be a shortage of lending capacity in rural areas and fewer choices elsewhere.

Consolidating mortgage lending among a handful of institutions carries its share of risks, as we have learned.

Failing to include this amendment would heighten risk in our financial system - an ironic result of a bill intended to reduce systemic risk.