GAO Highlights

Highlights of GAO-15-185, a report to congressional requesters

June 2015

MORTGAGE REFORMS

Actions Needed to Help Assess Effects of New Regulations

Why GAO Did This Study

Amid concerns that risky mortgage products and poor underwriting standards contributed to the recent housing crisis, Congress included mortgage reform provisions (QM and QRM) in the Dodd-Frank Wall Street Reform and Consumer Protection Act. CFPB's regulations establishing standards for QM loans became effective in January 2014. More recently, six agencies jointly issued the final QRM rule that will become effective in December 2015. GAO was asked to review possible effects of these regulations. This report (1) discusses views on the expected effects of the QM and QRM regulations, and (2) examines the extent of agency planning for reviewing the regulations' effects, among its objectives. GAO's methodologies included identifying and reviewing academic, industry, and federal agency analyses on the expected effects of the regulations. GAO also reviewed federal guidance on retrospective reviews and interviewed agency officials to assess agency efforts to examine the effects of the QM and QRM regulations.

What GAO Recommends

CFPB, HUD, and the six agencies responsible for the QRM regulations should complete plans to review the QM and QRM regulations, including identifying specific metrics, baselines, and analytical methods. CFPB, HUD, and one QRM agency—the Federal Deposit Insurance Corporation—concurred or agreed with the recommendations. The other QRM agencies did not explicitly agree with the recommendations, but outlined ongoing efforts to plan their reviews.

View GAO-15-185. For more information, contact Mathew J. Scirè at (202) 512-8678 or sciremj@gao.gov

What GAO Found

Federal agency officials, market participants, and observers estimated that the qualified mortgage (QM) and qualified residential mortgage (QRM) regulations would have limited initial effects because most loans originated in recent years largely conformed with QM criteria.

- The QM regulations, which address lenders' responsibilities to determine a borrower's ability to repay a loan, set forth standards that include prohibitions on risky loan features (such as interest-only or balloon payments) and limits on points and fees. Lenders that originate QM loans receive certain liability protections.
- Securities collateralized exclusively by residential mortgages that are "qualified residential mortgages" are exempt from risk-retention requirements. The QRM regulations align the QRM definition with QM; thus, securities collateralized solely by QM loans are not subject to risk-retention requirements.

The analyses GAO reviewed estimated limited effects on the availability of mortgages for most borrowers and that any cost increases (for borrowers, lenders, and investors) would mostly stem from litigation and compliance issues. According to agency officials and observers, the QRM regulations were unlikely to have a significant initial effect on the availability or securitization of mortgages in the current market, largely because the majority of loans originated were expected to be QM loans. However, questions remain about the size and viability of the secondary market for non-QRM-backed securities.

Agencies have begun planning their reviews of the QM and QRM regulations (due January and commencing December 2019, respectively); however, these efforts have not included elements important for conducting effective retrospective reviews. Federal guidance encourages agencies to preplan their retrospective reviews and carefully consider how best to promote empirical testing of the effects of rules. To varying degrees, the relevant agencies have identified outcomes to examine, potential data sources, and analytical methods. But existing data lack important information relevant to the regulations (such as loan performance or borrower debt to income) and planned data enhancements may not be available before agencies start the reviews. The Bureau of Consumer Financial Protection (CFPB) has proposed expanding Home Mortgage Disclosure Act data reporting requirements, but the earliest that the enhanced data will be available is 2017. Similarly, the Department of Housing and Urban Development (HUD) identified how it intends to examine its QM regulations and some potential data sources but has yet to determine how it would measure the effects of these regulations, including metrics, baselines, and analytical methods. Agencies also have not specified how they will conduct their reviews, including determining which data and analytical methods to use. Finalizing plans to retrospectively review the mortgage regulations will position the agencies to better measure the effects of the QM and QRM regulations and identify any unintended consequences. Additionally, the agencies could better understand data limitations and methodological challenges and have sufficient time to develop methods to deal with these limitations and challenges.