Wednesday, December 15, 2021

The Quiescent QRM

Summary

Although there were signs earlier this year that the QRM risk-retention exemption might get a long-delayed overhaul, the agencies yesterday ducked any decisions. Thus, the QM=QRM construct continues unchanged except to the extent the QM gets narrower, the GSEs leave conservatorship, or other externalities affect what equals what for purposes of absolving MBS issuers from costly risk retention.

Impact

As we previously noted, the QRM is required to undergo a five-year review, one that would have forced action in 2019 had the agencies not left matters as they were then and throughout the COVID crisis. The issue was revived in July of this year and, with yesterday's announcement, the question is closed for the next five years unless the FDIC, OCC, FRB, FHFA, SEC, or CFTC decides to re-open it.

The FDIC staff memo accompanying the decision states that all of these agencies reconsidered the issues that hung them up in knots before the current rule was finalized in 2014. Issues then included the extent to which the GSE exemption gave Fannie and Freddie too much clout, the need for additional risk retentions to ensure issuer and investor incentive alignment, and the degree to which third-party insurance could count as risk retention.

Now, as the industry hopes, the agencies also assessed the extent to which the QRM is too tightly drawn, thus limiting credit availability. They seem to think it may indeed have had that effect, but the staff note also that the law bars the QRM from being more liberal than the QM, thus declining to take action. Staff also looked at the extent to which the CFPB's QM rule effectively predicts default risk, concluding that it did and that, given that underwriting standards also remain tight, there is no need to capture additional risk indicators.

Outlook

Despite the fracas over FDIC procedure at yesterday's board meeting, the agency released and did its part to approve the QRM decision. We expect all the other agencies shortly to follow suit.

We shall of course see if this sanguine view holds as forbearance ends and the CFPB's price-level QM kicks in.

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