HEIDI HEITKAMP
NORTH DAKOTA
HART SENATE BUILDING 110
WASHINGTON, DC 20510
PH: 202–224–2043
FAX: 202–224–7776
TOLL FREE: 1–800–223–4457
http://www.heitkamp.senate.gov

United States Senate

WASHINGTON, DC 20510

COMMITTEES:
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August 5, 2015

Mr. Richard Cordray
Director
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, D.C. 20552

Dear Director Cordray:

I write to support the Council of Federal Home Loan Banks' (FHLBank) request that the Bureau establish a qualified mortgage (QM) option for mortgage loans participating in the various FHLBank risk sharing arrangements. Sixty-seven percent of participants in the FHLBank mortgage programs are institutions with less than $500 million in total assets; these are the smallest of the small lenders, and they need the certainty and flexibility of a FHLB QM option.

Small financial institutions that participate in the FHLB System engage in relationship lending — their customers are their neighbors, their youth sports coaches, their community leaders. I appreciate the Bureau's efforts to accommodate truly small community lenders by establishing a QM option for small creditors who hold mortgages in portfolio. However, the current QM regulations hinder the ability of small financial institutions in our states to do what they do best, serve their communities by providing affordable mortgages.

The general QM option contains strict requirements for assessing a consumer's ability to repay – such as Appendix Q – that hinder many small financial institutions' ability to engage in relationship lending. The Bureau recognized these impediments when it issued the small creditor QM option. While the small creditor QM option helps some small lenders who wish to hold loans in portfolio, those who want to increase the availability of mortgage credit in their communities by reselling to the FHLBanks or participating in a risk sharing arrangement receive no similar regulatory relief. Rather, they must adhere to the burdensome general QM rules, despite the Bureau's acknowledgement that these lenders "excel at making highly individualized determinations of ability to repay that take into consideration the unique characteristics and financial circumstances of the particular consumer."[1] A FHLB QM option would allow these institutions to expand access to credit by participating in the various FHLB mortgage programs.

Establishing a FHLB QM option tailored to benefit truly community financial institutions would not jeopardize borrower safety or increase systemic risk. The FHLBanks' risk sharing programs are authorized, regulated, and overseen by the Federal Housing Finance Agency, and current loan standards often meet or exceed the requirements of the general QM option. Because the FHLBank mortgage programs require lenders to retain a portion of the loan's credit risk, originators are motivated to make quality loans that will be repaid. Loans participating in the

[1] CFPB, Final rule/official interpretations: Ability-to-Repay and Qualified Mortgage Standards under the Truth in Lending Act (01/30/2013).

BISMARCK OFFICE:
228 FEDERAL BUILDING
220 EAST ROSSER AVENUE
BISMARCK, ND 58501
PH: 701-258-4648
FAX: 701-258-1254

DICKINSON OFFICE:
40 1ST AVENUE WEST
SUITE 202
DICKINSON, ND 58601
PH: 701-225-0974
FAX: 701-225-3287

FARGO OFFICE:
306 FEDERAL BUILDING
657 SECOND AVENUE NORTH
FARGO, ND 58102
PH: 701-232-8030 – 1-800-223-4457
FAX: 701-232-6449

GRAND FORKS OFFICE:
33 S. 3RD ST., SUITE B
GRAND FORKS, ND 58201
PH: 701-775-9601
FAX: 701-746-1990

MINOT OFFICE:
105 FEDERAL BUILDING
100 FIRST STREET S.W.
MINOT, ND 58701
PH: 701-852-0703
FAX: 701-838-8196

mortgage programs have a 1.47 percent 90-day delinquency rate, less than two-thirds the national average.

Community-based financial institutions are central to promoting growth and economic prosperity in small and rural communities throughout the nation. These institutions were not the cause of the housing and financial crises, and they should not be subject to regulations meant for large-scale mortgage-origination institutions. I encourage the Bureau to continue to allow small originators to serve their communities by establishing a QM option for the FHLB System.

Sincerely

Heidi Heitkamp

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