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Capito Opening Statement at the Financial Services Subcommittee Hearing

May 21, 2013

Washington, D.C. – Financial Institutions and Consumer Credit Subcommittee Chairman Shelley Moore Capito (WV-02) delivered the following opening remarks at today's hearing entitled, "Qualified Mortgages: Examining the Impact of the Ability to Repay Rule."

Remarks as prepared for delivery: *"In January the Consumer Financial Protection Bureau released the final ability to re-pay rule for consumer mortgages. Called for by title fourteen of the Dodd-Frank Act, this 800 page rule will potentially forever change the mortgage market in this nation. While the intent is to protect consumers from fraudulent mortgages, the practical implications of this rule could result in a constriction of mortgage credit for consumers. I fear that this approach of 'Washington knows best' will harm the very people that the rule seeks to help: borrowers who are on the fringe of lacking access to mainstream financial services.*

"Since the release of this rule, I have heard from many community banks and credit unions in my district about the adverse effect this rule will have on the communities they serve. These financial services professionals are on the front lines of lending in their communities. They know their customers and they also know what types of financial products are appropriate for their customers based on their unique circumstances. Many of them have expressed great concern about their continued ability to serve their communities needs for mortgage credit under the regime established by the rule.

"One of the most glaring concerns with the rule is the overly restrictive definition of what is a rural community. Bill Loving, President and CEO of Pendleton Community Bank in West Virginia raised this issue at a subcommittee hearing last month. He said:

'I think the members of this committee will be surprised at what counties in their own states and districts fail to qualify as 'rural.' For example, in the state of West Virginia, 26 out of 55 counties fail to meet the definition of rural. Under any reasonable definition, the entire state of West Virginia should be considered rural.'

"To assert that nearly half of the state of West Virginia is not rural demonstrates a lack of familiarity with what constitutes a rural community.

"Having an accurate rural definition is essential for community banks and credit unions that currently offer balloon loans to their customers. Linda Ashley, President and CEO of Poca Valley Bank recently wrote to me about the importance of this product:

'Balloon loans enable us to better manage interest rate risk and balloon loans are a product our customer base has been comfortable with for many years. We urge you to help preserve our ability to serve our customers…'

"There is a niche demand for these types of loans in rural communities. They allow borrowers who would not otherwise be able to access credit to purchase a home. The decision of whether or not a borrower should be able to access this type of credit is best determined by the lender working with the individual borrower on a case by case basis. This type of labor intensive relationship lending is the linchpin of community based lending.

"My main concern with the QM rule is that the people who do not fit the one-size-fits all criteria for QM loans will be not able to access mortgage credit. Despite the CFPB's claims that lenders will issue non-QM mortgages, my conversations with lenders lead me to believe that few, if any, will be willing to issue these types of mortgages. In April, Bob Burrow, President and CEO of Bayer Heritage Federal Credit Union expressed concern to this subcommittee about the uncertainty facing mortgages that fall outside the QM criteria. He gave the example of a loan that he would normally consider a 'gold star loan' that did not meet the QM criteria. He fears that credit unions who issue these types of loans will be subject to enhanced scrutiny from regulators and legal liability.

"Another example of how this rule may affect consumers is from Charles Hageboeck, President and CEO of City National Bank of West Virginia. His assessment on the rules impact on West Virginia consumers is:

'However, the QM rules will cause us to offer less credit- and generally the customers that will fall off the table are higher risk, lower income consumers- and West Virginia has many of these- so it will impact our state.'

“Similarly, Thomas Whaling, President and CEO of West Union Bank, is concerned about the ability of his institution to meet the demand for loans that do not meet the GSE’s underwriting standards. He said:

‘We currently place these types of loans, to qualified borrowers, in the bank’s portfolio; however, if these requirements are finalized we will not make these loans which will result in denying service to qualified borrowers.’

“Each of these examples highlights the consequences, whether unintended or not, of the one-size-fits all approach that the QM rule espouses. Lending in rural communities like West Virginia is based on the relationships community banks and credit unions have with their customers and members. They know that each person has unique credit needs and often times require a tailored financial product to meet these needs. The current QM rule threatens the ability of these institutions to provide their customers and members with the financial products they require. On the heels of the financial crisis we should be preserving this type of relationship lending, not regulating it out of existence.

“I hope our witnesses from the CFPB will pay close attention to these accounts as the move towards implementation of the final rule.”