

Housing Finance Reform: Access to the Secondary Market for Small Financial Institutions

Tuesday, June 28, 2011
10:00 AM

Witnesses

Panel 1

- **Mr. Jack Hartings** [[view testimony](#)]
President and CEO
The Peoples Bank Company, on behalf of the Independent Community Bankers of America
- **Mr. Edward Pinto** [[view testimony](#)]
Resident Fellow
American Enterprise Institute
- **Mr. Rod Staatz** [[view testimony](#)]
President and CEO
SECU on behalf of the Credit Union National Association
- **Mr. Christopher R. Dunn** [[view testimony](#)]
Executive Vice President
South Shore Saving Bank on behalf of the American Bankers Association
- **Mr. Peter Skillern** [[view testimony](#)]
Executive Director
Community Reinvestment Association of North Carolina

The overriding theme of the hearing was that smaller financial institutions must have “equal access” to the secondary mortgage market in a manner similar to the accessibility available today. Several of the witnesses suggested that there would be tremendous volatility in the mortgage market in the absence of some form of government guarantee, and that phasing out the government-sponsored enterprises (“GSEs”) would only disadvantage smaller institutions and further enshrine “too-big-too-fail” institutions. Some of the witnesses highlighted that low and moderate income consumers would be denied access to mortgage credit on reasonable terms. In addition, some of the witnesses suggested that the 30-year fixed mortgage may no longer be available to consumers. One witness, however, stated that the key to the survival of the 30-year fixed mortgage is being able to adequately price the pre-payment risk.

Another key theme of the hearing was the discussion about the current regulatory barriers for smaller financial institutions created by the Dodd-Frank Act. In particular, the rules promulgated under both the “qualified mortgage” definition as well as the “qualified residential mortgage” definition will have very negative consequences for banks trying to access the secondary market. Both of the community banking witnesses discussed the unlevel playing field created by Dodd-Frank and other regulations suggesting that larger institutions had the legal capacity to absorb the new mandates, while smaller institutions could not afford to hire the requisite compliance staff. In addition, while agreeing with the need to ensure a borrower’s ability to repay, several of the bankers discussed frustration with the “check the box” underwriting requirements imposed by federal regulation.

Lastly, at least one of the witness suggested that covered bonds would essentially consolidate the mortgage space into a very few mega-institutions. Mr. Jack Hartings, CEO of the Peoples Bank Company and testifying on behalf of the Independent Community Bankers of America (“ICBA”), stated, “While covered bonds have been advanced as an alternative to the secondary markets in providing liquidity to loan originators, they have, to date, enjoyed little investor interest. Also, these bonds are capital intensive which makes them infeasible for all but the largest banks. Banks like mine would have to sell their loans to larger banks thus fueling further concentration and consolidation.” Mr. Hartings instead advocated a lender-owned cooperative structure as a more appropriate path forward.