

## Why GAO Did This Study

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) is intended, among other things, to reform residential mortgage lending and securitization practices that contributed to the recent financial crisis. The act provides some liability protection for lenders originating mortgages that meet nine specified criteria, as applicable, associated with a borrower's ability to repay ("qualified mortgages"). The act also requires securitizers of mortgages not meeting separate criteria associated with lower default risk to retain at least 5 percent of the credit risk, though federal rulemaking agencies may vary this amount. The act directed GAO to assess the effect of mortgage-related provisions on the availability and affordability of mortgage credit and to issue a report by July 2011, but federal agencies are still developing implementing regulations. This report discusses the potential impact of the act's (1) qualified mortgage criteria, (2) credit risk retention requirement, and (3) provisions concerning homeownership counseling and regulation of high-cost loans.

To do this work, GAO analyzed a proprietary database of residential mortgages, reviewed relevant housing and mortgage market research, and interviewed key mortgage industry stakeholders.

GAO provided a draft of this report to eight agencies. In a letter, the National Credit Union Administration said, as noted in the report, that the act's impact would depend on regulatory decisions that had yet to be made. Six other agencies provided technical comments that have been incorporated as appropriate.

View [GAO-11-656](#) or key components. For more information, contact William B. Shear at (202) 512-8678 or [shearw@gao.gov](mailto:shearw@gao.gov).

## MORTGAGE REFORM

### Potential Impacts of Provisions in the Dodd-Frank Act on Homebuyers and the Mortgage Market

## What GAO Found

GAO examined five of the nine qualified mortgage criteria specified in the Dodd-Frank Act for which sufficient data were available and generally found that, for each year from 2001 through 2010, most mortgages would likely have met the individual criteria. The five criteria address payment of loan principal, length of the mortgage term, scheduled lump-sum payments, documentation of borrower resources, and borrower debt burden. The extent to which mortgages met the individual criteria varied by year of origination, reflecting changes in the mortgage market over the 10-year period. However, the impact of the full set of qualified mortgage criteria is uncertain, partly because data limitations make analysis of the other four criteria difficult and partly because federal agencies could establish different criteria as they develop final regulations. Consumer and industry groups indicated that the criteria specified in the act would likely encourage sound underwriting but could also restrict the availability of and raise the cost of mortgage credit for some homebuyers. Provisions in the act and proposed regulations attempt to address some of these issues, in part by providing exemptions for certain loan products in certain locales, such as rural areas. The public comment period for these proposed regulations ends on July 22, 2011.

Mortgage industry stakeholders GAO spoke with indicated that the implications of a risk retention requirement would depend on a variety of regulatory decisions and potential changes in the mortgage market. Rulemaking agencies are accepting public comments on proposed risk retention regulations through August 1, 2011. Key decisions that have yet to be made concern the characteristics of mortgages that would be exempt from risk retention, the forms of risk retention that would be allowed, the percentage that securitizers would be required to hold, and risk-sharing arrangements between lenders and securitizers. These factors could affect the availability and cost of mortgage credit and the viability of a private mortgage securitization market. Additionally, risk retention could complement other securitization and mortgage reforms, such as those that promote greater transparency and enforcement of loan underwriting standards.

Other provisions in the Dodd-Frank Act concerning homeownership counseling and regulation of high-cost loans could enhance consumer protections and improve mortgage outcomes for some borrowers, but their specific impacts are difficult to assess at this time. The act authorized a new Office of Housing Counseling within the Department of Housing and Urban Development, but the office is still in the planning stage. Findings from the limited research on housing counseling for mortgage borrowers are mixed, with some studies suggesting that some types of counseling can improve mortgage outcomes and others finding no effect. The act also expands the definition of "high-cost loans," which have disclosures and restrictions designed to protect consumers. Although lenders have generally avoided making these loans, additional information on mortgage costs would be needed to assess the extent to which the new definition would affect mortgages that may be made in the future.