Statement by
FDIC Vice Chairman Thomas M. Hoenig
On
Approval of the Final Risk Retention Rule;
FDIC Board Meeting,
Washington, DC
October 21, 2014

Arriving at the final Risk Retention Rule has involved compromise among the agencies to implement its general purpose in accordance with the Dodd-Frank Act of 2010. While there are elements that I am not completely satisfied with, on balance the final rule provides standards that will serve to contain some of the excessive risk taking that was an important contributor to the crisis of 2008.

The rule seeks to provide a simpler and more flexible standard for residential borrowers as it equates QM to QRM and does not require that residential loans have a 70 or 80 percent loan-to-value ratio to qualify for the exemption from the risk retention requirement. While this may facilitate greater home ownership, a goal we all share, there are data to suggest it might increase the risk that borrowers will more frequently default and lose their homes. Thus, while I support going forward as proposed, I join those who judge it important to monitor this definition of QRM to be confident its benefits exceed long run costs.

I also support the overall proposal because it is important that other loan categories that will be better served if these risk retention rules are implemented. In particular I support the standards set for the CLO and other ABS.

Lending, investing and securitizing assets are essential elements of a successful economy. However, for such activities to benefit the greatest part of the economy consistently over time, then they must be tempered with sound underwriting standards that promote sustainable growth over the business cycle.

Thus, on balance I support the final rule.

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