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SELECT COMMITTEE ON ETHICS

United States Senate

WASHINGTON, DC 20510

March 11, 2011

The Honorable Timothy Geithner
Secretary
United States Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

The Honorable Shaun Donovan
Secretary
United States Department of Housing and
Urban Development
451 7th Street, S.W.
Washington, D.C. 20410

The Honorable Benjamin Bernanke
Chairman
Board of Governors of the Federal Reserve
Washington, D.C. 20551

The Honorable Sheila Bair
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

The Honorable Mary L. Schapiro
Chairman
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Mr. John G. Walsh
Acting Comptroller of the Currency
Administrator of National Banks
Washington, D.C. 20219

Mr. Edward J. DeMarco
Acting Director
Federal Housing Finance Administration
1700 G Street, N.W., 4th Floor
Washington, D.C. 20552

Dear Secretary Geithner, Secretary Donovan, Chairman Bernanke, Chairman Bair, Chairman Schapiro, Mr. Walsh, and Mr. DeMarco,

I am writing in regard to the definition of a "qualified residential mortgage" (QRM) as set forth in the Wall Street Reform and Consumer Protection Act. In the coming weeks, your agencies will enact rules that will have a significant impact on the future of the housing finance market. I appreciate your efforts to implement risk retention requirements. However, I am concerned about proposals that would require borrowers to make substantial down payments in order to be eligible for a QRM.

As you know, QRMs are loans featuring sound underwriting standards that promote a well-functioning financial framework. Since qualified residential mortgages pose little risk of default, I supported an exemption from risk retention requirements that are applicable to other asset-backed securities. If implemented as intended by Congress, the regulation of QRMs will allow qualified working families to access affordable home loans.

The original intent of exempting QRMs from the risk retention requirements was to provide access to affordable loans for qualified first-time, low-income families while maintaining

confidence in bank assets. If this objective were ignored, onerous down payment requirements could prevent qualified families from realizing the American dream.

Clearly, a low down payment loan is not the same as a subprime loan. Between 1990 and 2009, millions of mortgages were made with low down payments, and these loans did not have risky features. Studies have shown that low down payment loans are not a major factor in the likelihood of default. Instead, regulators must recognize that the underwriting and product features of mortgages are far more important than down payment standards in determining the ability of a borrower to repay a loan.

With the housing market is still fragile, we need to devote special attention to the first-time home buyers who can stimulate growth through the construction and purchase of new homes. This group accounts for 40 percent of the home-purchasing population. If QRM's were to carry a 20 percent down payment requirement, the average first-time home buyer would be required to save more than \$36,000. During these challenging economic times, low-income families are struggling to make ends meet and significant up-front costs would disqualify them from home ownership. More families could be driven to Federal Housing Administration (FHA) loans, which would expose the government to increased financial risk.

In order to balance the need to provide affordable credit with the need to protect the soundness of our financial markets I urge you to reconsider QRM proposals that require a down payment as high as 20 percent. Circumstances will continue to evolve and regulations governing the mortgage market will need to be recalibrated as conditions dictate. However, I am confident that your agencies can work within the guidelines enumerated in Section 941 to provide credit to qualified borrowers while also maintaining stability in the financial markets.

Thank you for your time and attention regarding this important matter. I look forward to hearing from you in the near future.

Sincerely,


Sherrod Brown
United States Senator