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APPROPRIATIONS

JUDICIARY

SPECIAL COMMITTEE
ON AGING

United States Senate

WASHINGTON, DC 20510-4903

March 18, 2011

The Honorable Shaun Donovan
Secretary
Dept. of Housing and Urban Development
451 7th Street S.W.
Washington, DC 20410

The Honorable Sheila Bair
Chairwoman
Federal Deposit Insurance Corporation
550 17th St., NW
Washington, DC 20429

The Honorable Ben Bernanke
Chairman
Board of Governors of the Federal Reserve System
2001 C Street, NW
Washington, DC 20001

The Honorable Mary Schapiro
Chairwoman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Mr. Edward DeMarco
Acting Director
Federal Housing Finance Agency
1700 G Street, NW
4th Floor
Washington, DC 20552

The Honorable John Walsh
Acting Comptroller
Office of the Comptroller of the Currency
1775 Duke Street
Alexandria, Virginia 22314

Dear Secretary Donovan, Chairwoman Bair, Chairman Bernanke, Chairwoman Schapiro and Messrs. DeMarco and Walsh,

As Congress considers significant reforms to our nation's housing finance system, there is bipartisan agreement that the private market should play the leading role in whatever new housing finance system policy makers ultimately devise. In recent days, both the Administration and key Members of Congress have recommended that government support for the housing sector be limited going forward and that we should do more to encourage private sector capital to return to the mortgage finance market.

I am concerned that the qualified residential mortgage ("QRM") rulemaking could artificially drive low-downpayment loans towards government-backed mortgage insurance. Loans insured by the Federal Housing Administration (FHA) and other government agencies are statutorily exempt from the risk-retention requirements but press reports indicate that low-downpayment loans insured by private mortgage insurers (PMI) will not be included in the QRM definition. Private mortgage insurance should be treated equally in this rule otherwise it will be difficult to reform our housing market in any meaningful way. Additionally, steering the market to government insured loans could result in consequences that will impact the tax payer and our housing market.

As you are aware, FHA-insured loans have a 100 percent federal government insurance backing which means that taxpayers are responsible for 100 percent of the loan amount if FHA can't meet its obligations. The President's most recent budget said that FHA's insurance-in-force will reach $1.136 trillion in 2011 and increase to $1.253 trillion by the end of 2012. If FHA's financial condition were to deteriorate, this cost to FHA could be borne by the taxpayers. While government insured loans serve an important purpose in our housing market, it is important that there also be private options available to homebuyers in the marketplace. Limiting taxpayer risk and putting private sector capital at risk are important tenets for Congress when it considers reforming the housing market. Therefore, I urge the Administration and regulatory agencies to see to it that any steps forward will not diminish the role that private sector capital can play as part of a new mortgage finance system.

Thank you for your consideration of my views on this issue.

Sincerely,

Herb Kohl

Herb Kohl

cc: The Honorable Timothy Geithner
Secretary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

cc: The Honorable Neal Wolin
Deputy Secretary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220