The Wisconsin Credit Union League
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*Delivery via E-mail to* regs.comments@federalreserve.gov
*and submitted via the Federal Reserve eRulemaking Portal at*
www.regulations.gov

July 22, 2011

Ms. Jennifer Johnson
Secretary
Board of Governors of the Federal Reserve
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

Re: Docket No. R-1417—Regulation Z "Ability to Pay" proposal to implement the minimum mortgage underwriting standards required by Title XIV of the Dodd-Frank Act

Dear Ms. Johnson:

The Wisconsin Credit Union League, serving 225 credit unions and over two million members, welcomes the opportunity to provide the following comments to the Federal Reserve Board's proposed "Ability to Pay" mortgage lending rule.

Although we support much of the proposed rule, we do have a number of issues we ask you to consider. Our concerns are in line with Chairman Bernanke's comments, reiterated just last week, that limited credit access is one of the several headwinds that is slowing our country's economic recovery. Wisconsin credit unions, which did not participate in the exotic mortgages and other dealings that brought on so much of downturn that is still plaguing us, have always been careful lenders that underwrote mortgages conservatively and with the best interests of their members in mind. Our concern is that rules that cast too wide a net and are too prescriptive would mean that lenders cannot take into consideration and prioritize all of the factors that have allowed many individuals to get into a home.

Please consider:

- Requiring lenders to fit borrowers into a particular mold means those who do not fit are more likely to be left out. Most often, these will be the poor or underserved. Credit unions have successfully lent to members based on additional criteria to the eight factors in the proposed rule—criteria such as family history, repayment history, potential income growth, inter-family transactions, etc. So narrowly defining underwriting standards, without consideration of other potential compensating factors, is a disservice to credit union members who may have the ability to own a home but would not qualify under the proposed rule.

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- The proposed rules seem to assign an equal weight to the listed factors, not permitting a significant factor in one area to compensate for a weak or missing factor. This rigidity will likely lead financial institutions to decline loans to borrowers who would have qualified and been successful under the broader underwriting approach that considers the additional relevant factors listed in our first bullet point. If the intent is not that the factors must be weighed equally, language more clearly permitting such balancing would be helpful.
- Lenders that underwrite, fund, and service loans—"portfolio" lenders—should be excluded from the rule. This type of lender did not cause the problems the provision is attempting to avoid in the future—junk mortgages being securitized and sold off to investors. Financial institutions that take responsibility for the loan by holding it in portfolio (and therefore have no incentive to grant loans without regard for quality) should be allowed to make their own underwriting decisions. Such an exclusion might also include lenders that sell and service loans but have a "tier 1" servicing rating or delinquency/foreclosure rates that fall within certain parameters.
- The exclusion of balloon loans from "qualified mortgages" for most financial institutions (all except those under $2 billion that operate predominantly in underserved and rural areas) is problematic. Balloon loans are a tool used to manage interest rate risk for many lenders, including credit unions and community banks that hold these loans and do not sell them to the secondary market. Excluding balloon loans will harm financial institutions by taking away a means of addressing interest rate risk.
- In any event, the definition of "underserved" and "rural" should be broadened to match, at least, the areas that have already been determined to be underserved or rural by the NCUA and other federal agencies. Being underserved, for example, often has nothing to do with how many other financial institutions are in the area, but rather with whom those financial institutions are willing to serve.

In conclusion, while we generally support the proposed rule's purpose, we believe that many financial institutions, including credit unions, should not be penalized and restricted along with the wrongdoers when such restrictions result in unnecessary hardship for people who have shown they can manage a mortgage but who do not precisely fit the proposed rule's parameters. The proposal as written will reduce choices in the market and make it much more difficult for niche, relation-centered lenders like credit unions to serve their members.

Thank you.

Sincerely,

Joanne K Whiting

Joanne R. Whiting
Executive Vice President and Chief Advocacy Officer
The Wisconsin Credit Union League