CAMP
CALIFORNIA ASSOCIATION OF
MORTGAGE PROFESSIONALS

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August 1, 2011

Honorable Ben S. Bernanke
Chairman
Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Attention: Jennifer J. Johnson, Secretary

Mr. Edward J. DeMarco
Acting Director
Federal Housing Finance Agency
Fourth Floor
1700 G Street, NW
Washington, DC 20552
Attention: Comments/RIN 2590-AA43,
Alfred M. Pollard, General Counsel

Honorable Mary L. Shapiro
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549
Attention: Elizabeth M. Murphy, Secretary

Honorable Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
Attention: Comments, Robert E. Feldman,
Executive Secretary

Honorable Shaun Donovan
Secretary
Department of Housing & Urban
Development
Regulations Division
Office of General Counsel
451 7th Street, SW, Room 10276
Washington, DC 20410-0500

Mr. John G. Walsh
Acting Comptroller
Office of the Comptroller of the Currency
250 E Street, SW., Mail Stop 2-3
Washington, DC 20219

Re: Interagency Proposed Rule on Credit Risk Retention

Dear Sir or Madam:

This comment letter is being submitted on behalf of the California Association of Mortgage Professionals (CAMP). We appreciate the opportunity to comment on the proposed credit risk retention rule and in particular on the standards that define a Qualified Residential Mortgage (QRM).

CAMP is a non-profit, professional trade association of more than 1,700 licensed mortgage brokers and affiliated service providers across California. The Association serves as a forum for financial education, community outreach, innovation, networking, legislative and regulatory advocacy, and it provides benefits and public relations for its membership. We are dedicated to the highest standards of professional and ethical conduct and committed to lending integrity, consumer protection and the preservation of maximum reasonable access to the American dream of homeownership.

CAMP Loan Originators volunteer, serve and work in the communities. We are small business owners that play an important role in the local marketplace to foster positive competition in order to ensure that the consumer receives the best service at that lowest combination of rates and fees.

Overview

CAMP offers comments in the following areas of the proposed credit risk retention rule: (1) points and fees; (2) 20 percent down payment requirement; (3) debt-to-income ratios and credit history standards; and (4) risk retention transfer to the originator.

Points and Fees

The Dodd-Frank Act requires securitizers to retain an economic interest in a portion of the credit risk for residential mortgages that they use to collateralize asset-backed securities. It then exempts securities from this requirement that are backed only by loans with low default risk that meet the QRM standard. CAMP agrees with the majority of commentators who believe low default risk can be tied to prudent underwriting standards. In a recent Mortgage Market Note (April 11, 2011), the FHFA identifies contributing factors as product-type, payment-to-income and debt-to-income (PTI/DTI) ratios at origination, initial loan-to-value (LTV) ratios based on the purchase price or appraised property value and the first-lien balance, and credit score(s) for the borrower(s) calculated using models developed by Fair Isaac Corporation (FICO).

The initial fees paid on a mortgage have never been shown or even argued to be a predictor of default risk. CAMP urges regulators to exclude the use of one-time fees as a predictor of loan quality wherever possible, as while inclusion will have zero impact on loan quality, it will lead to increased cost and complexity in the loan production process, as well as unintended reductions in competition, borrower choices, and the general availability of mortgages.

CAMP believes prudent underwriting guidelines, as outlined in the Fed's proposed General Ability-to-Repay Standard is the best way to measure default risk on a mortgage. This position is reflected in our submitted comments on the Federal Reserve Board's proposed ability-to-repay rule regarding the cap and calculation of points and fees within the Qualified Mortgage (QM) standard; we believe it should be removed or marginalized. (A copy of CAMP's comment letter discussing points and fees under the QM is attached for more details.)

However, if the level of one-time fees is included in any quality measurement, we urge that the QRM standards simply incorporate by reference the points and fees calculation and definition that is ultimately adopted in the proposed ability-to-repay rule so that mortgage originators do not have to deal with two different definitions and calculations. Additionally, if the QM's points and fees definition or calculation are changed over time, the QRM's points and fees requirement should automatically be adjusted to match the QM.

20 Percent Down Payment Requirement

The proposed 20 percent down payment requirement is contrary to Congressional intent and will reduce the availability of affordable mortgage capital for otherwise creditworthy qualified borrowers while having little impact on default rates. Section 941 of the Dodd-Frank Act specifically names "mortgage guarantee insurance" as one of the factors to be included in the QRM definition. CAMP agrees with previous comments submitted by the Mortgage Insurance Companies of America (MICA) that shows loans with private mortgage insurance default less often and cure more often than uninsured loans with similar characteristics.

An overly strict 20 percent down payment requirement will disproportionately harm first-time and minority homebuyers. A 2010 survey by the National Association of Realtors (NAR) found that 86 percent of first-time homebuyers made down payments below 20 percent. According to NAR, risk retention could raise rates for non-QRMs by as much as 80-185 basis points versus the 10-15 basis points as stated by regulators in Congressional testimony. Similarly, a June 20, 2011 analysis by Mark Zandi of Moody's Analytics estimates "conservatively" that borrowers of non-QRM mortgages would be saddled with interest rates 75-100 basis points higher than QRM-eligible borrowers. An increase of 75-185 basis points would drive all borrowers under 20 percent down to FHA, who is exempt for the rule. This inequality will push more risk on the taxpayer and have the opposite effect as intended.

CAMP recommends including private mortgage insurance as a qualifying factor of a QRM for loans with less than 20% down payment.

Debt-to-Income Ratios and Credit History Standards

The proposed debt-to-income ratios and credit history standard are unduly restrictive, based on antiquated approaches to credit underwriting and represent single-factor analyses that can result in denying access of a QRM mortgage for many creditworthy borrowers. Additionally, the proposed debt-to-income and credit history standards are not a true indication of a borrower's demonstrated willingness and ability-to-repay their financial obligations. CAMP recommends the regulators adopt the approach taken in the Federal Reserve Board's proposed rule on ability-to-repay required under Section 1411 of the Dodd-Frank Act. The Fed's proposed "general ability-to-repay standard" adopts a more up to date and holistic approach to underwriting than the QRM's proposed debt-to-income ratios and credit history standard.

The general ability-to-repay standard in the Fed's rule sets out a process for the creditor to assess a borrower's ability-to-repay the proposed loan obligation and requires verification of certain data relied upon by the creditor in making the determination, including income, assets and employment. The general ability-to-repay standard also specifies certain items that the creditor must take into account when making the determination of the borrower's ability-to-repay, including total debt-to-income ratio, using the full amount of housing related expenses including principal, interest, taxes and insurance, and the borrower's credit history.

Without endorsing the specifics of the proposed ability-to-repay rule (which may change considerably before being promulgated in final form) we believe the proposed QRM standard should be revised to state that if a creditor makes a determination of the borrower's ability-to-repay in a method and manner that complies with the general ability-to-repay standard or the QM standard, then the underwriting requirements for QRM eligibility have been satisfied. CAMP recommends deleting the specific debt-to-income ratios and the consumer credit history standards in the proposed risk retention rule in favor of this revised approach. This approach will also ensure that the QRM standard complies with the statute that says the QRM can be "no broader than" the QM.

Risk Retention Transfer to the Originator

CAMP opposes the draft provision that would permit the transfer of the risk retention obligation from an issuer to an originator. Due to other Dodd-Frank Act provisions, originators now must meet a statutory duty to determine a borrower's ability-to-repay the debt obligation they are incurring through the loan. This statutory obligation will do more than any risk retention provision would in ensuring that originators have every incentive to originate well-underwritten loans with consumer-friendly features. In addition, repurchase obligations by originators under their representations and warranties to securitizers serve as 100% risk retention for loans that do not meet investor standards.

However, if the regulators determine a portion of the risk is transferable, the issuer should not be able to pass the risk retention beyond the creditor to a loan originator. Loan originators do not have enough capital to retain the credit risk and are only a facilitator of the mortgage transaction. Allowing an issuer to shift risk retention to loan originators would cripple the originator's ability to operate and does not effectively accomplish the intended goal of risk retention. Loan originators do not have underwriting authority to approve or deny a borrower's loan and should not be held responsible for a creditor's decision.

Thank you for your consideration of our views on the proposed credit risk retention rule. Please contact me if you have any questions or would like additional information.

Sincerely,

Ed Craine
President
California Association of Mortgage Professionals

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July 20, 2011

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

RE: Regulation Z Docket No. R-1417 and RIN No. 7100-AD75

Dear Ms. Johnson,

This letter is in response to the Board's request for public comment regarding Regulation Z in the proposed Ability-to-Repay rule. The California Association of Mortgage Professionals (CAMP) would like to offer our recommendations in the following areas of the proposed rule: (1) the 3% cap on points and fees; (2) the calculation of points and fees; (3) the small loan exemption on the points and fees cap; and (4) the safe harbor.

CAMP is a non-profit, professional trade association of more than 1,700 licensed mortgage brokers and affiliated service providers across California. The Association serves as a forum for financial education, community outreach, innovation, networking, legislative and regulatory advocacy, and it provides benefits and public relations for its membership. We are dedicated to the highest standards of professional and ethical conduct and committed to lending integrity, consumer protection and the preservation of maximum reasonable access to the American dream of homeownership.

CAMP Loan Originators volunteer, serve and work in the communities. We are small business owners that play an important role in the local marketplace to foster positive competition in order to ensure that the consumer receives the best service at that lowest combination of rates and fees.

CAMP is supportive of the Board's efforts to implement the Ability-to-Repay rule as directed by the Dodd-Frank Wall Street Reform and Consumer Protection Act. However, CAMP has several recommendations to improve the rule that will minimize unintended consequences while still protecting consumers and adhering to the intent of Congress.

3% Cap on Point and Fees

Section 1412(b)(2)(A)(vii) of the Dodd-Frank Act prescribed a 3% cap on points and fees to be part of the definition of a Qualified Mortgage (QM). However, Section 1412(b)(3)(B)(i) states that, *"The Board may prescribe regulations that revise, add* *to, or subtract from the criteria that define a qualified mortgage upon a finding that such regulations are necessary or proper to ensure that responsible, affordable mortgage credit remains available to consumers in a manner consistent with the purposes of this section…"*

The Board's proposed QM includes the 3% cap on points and fees. CAMP strongly believes that a cap on points and fees is not a proper test to determine a borrower's ability-to-repay and should be removed from the definition of the QM. CAMP suggests instead that the QM Alternative 1 at minimum include the debt-to-income (DTI) ratio and credit history standards from the General Ability-to-Repay Standard (GARS). A borrower's DTI ratio and credit history are substantially better standards to assess a borrower's ability-to-repay. Additionally, the DTI ratio takes into account points and fees when financed into the loan.

Calculation of Points and Fees

The proposed method of calculating points and fees for the QM does not treat mortgage brokers and creditors/banks equally. A mortgage broker must include both the broker and loan officer's compensation in connection with the loan. However, a bank only needs to include the cost of the internal loan officer's compensation in connection with the loan. The bank does not include its internal compensation on the loan.

This is a significant disadvantage for mortgage brokerage firms competing with retail banks. CAMP asks the Board to amend the points and fees calculation to ensure that mortgage brokers and banks are treated equally under the law. CAMP suggests the Board amend the rule by removing a broker's compensation from the point and fees calculation. Another option would be to increase the 3% cap on loans originated through a broker to 5%. If this change is not made, both brokers and consumers will be harmed.

The attached "Points and Fees Illustration" shows that a $150,000 loan with an equal interest rate will cost a borrower the same at closing and throughout the life of the loan. However, the calculation of the broker's points and fees will be $4,695 and fail the 3% cap, while the calculation of the bank's points and fees will be $2,445 and under the cap. The calculation of the 3% cap will harm consumers by reducing competition between brokers and banks, resulting in higher borrowing costs and fewer options for consumers.

Small Loan Exemption

Section 1412(b)(2)(D) of the Dodd-Frank Act directs the Board to provide exemptions to the 3% cap on smaller loans to reduce the potential impact on credit availability. The proposed rule provides two options that both increase the 3% cap on a sliding scale beginning at $75,000.

CAMP recommends the Board increase the small loan exemption to $175,000. The attached "Points and Fees Illustration" shows that the $75,000 threshold is too low and will drive all borrowers' under $175,000 to retail banks, ultimately limiting consumer options and forcing them into higher rate loans.

As shown in the "Points and Fees Illustration," loans below $175,000 using the current calculation of points and fees will exceed the 3% cap, while retail banks never exceed the cap above $75,000 and could go even lower if they were to roll the fees into the rate which a broker is unable to do.

Safe Harbor

CAMP is concerned that the Board's proposed rule includes a legal safe harbor from an ability to repay challenge for loans that meet the QM Alternative 1, while not offering (at a minimum) a comparable safe harbor for loans that meet the GARS standard. When comparing the GARS and QM, it is clear that the comprehensive underwriting criteria adopted by GARS is superior in determining ability to repay, while the QM has little to do with such, instead sacrificing underwriting standards for plain vanilla products and fee caps.

Under the current structure of the proposed GARS and QM Alternative 1, CAMP is concerned that lenders will drive consumers to the QM to get the safe harbor. CAMP is further concerned that over time, the lack of minimum underwriting standards in the QM could lead to safe harbor loans being made that a simple test comparing total income to total debts would have proven mathematically unsustainable.

A borrower's predictable failure on QM Alternative 1 loans will not be averted simply because the loan lacks certain features or was obtained below a randomly selected one-time fee cap. CAMP believes it irrational and indefensible to protect lenders of such loans while not offering equal or greater protection to lenders who choose to soundly underwrite loans under GARS.

Thank you for your consideration of our views on the Boards proposed rule on the Ability-to-Repay. We look forward to working with the Board and CFBP to help implement this rule with the best possible outcome for consumers and the housing finance system. Please contact me if you have any questions or would like additional information.

Sincerely,

Ed Craine
President
California Association of Mortgage Professionals

Points and Fees Illustration

When a loan is made, it is sold on the secondary market and generally has a premium paid for the rate secured by the borrower. This premium or price could be 103 or higher depending on the note rate. That premium is not disclosed to the consumer when the consumer obtains a loan from a banking institution. In a Brokered loan, it is. Banks can pay expenses and book profit and not have to disclose those costs and profits to the consumer. The consumer is focused on interest rate and out of pocket costs for the loan. In our comparison, we show the difference when a cosumer obtains a loan through a Broker and a loan through a Bank based on the same note rate (fixed rate term).

	Broker Fee	Lender Fee										
Brokered loan												
Loan Amount			$75,001	$100,000	$125,000	$150,000	$175,000	$200,000	$225,000	$250,000	$275,000	$300,000
Borrower Paid Origination 0%			0	0	0	0	0	0	0	0	0	0
(Lender paid) Total Origination 2.25% - includes comp to Company and LO	x		$1,687.52	$2,250.00	$2,812.50	$3,375.00	$3,937.50	$4,500.00	$5,062.50	$5,625.00	$6,187.50	$6,750.00
Underwriting		x	$995	$995	$995	$995	$995	$995	$995	$995	$995	$995
Doc Prep		x	$150	$150	$150	$150	$150	$150	$150	$150	$150	$150
Appraisal Review		x	$175	$175	$175	$175	$175	$175	$175	$175	$175	$175
Processing Fee	x											
Admin Fee		x										
Total Points & Fees for QM test			$3,007.52	$3,570.00	$4,132.50	$4,695.00	$5,257.50	$5,820.00	$6,382.50	$6,945.00	$7,507.50	$8,070.00
Maximum Allowed			$2,250.03	$3,000.00	$3,750.00	$4,500.00	$5,250.00	$6,000.00	$6,750.00	$7,500.00	$8,250.00	$9,000.00
Meets 3% Fee Test			*FAIL*	*FAIL*	*FAIL*	*FAIL*	*FAIL*	*PASS*	*PASS*	*PASS*	*PASS*	*PASS*
Total loan fees paid by Consumer			**$1,320.00**	**$1,320.00**	**$1,320.00**	**$1,320.00**	**$1,320.00**	**$1,320.00**	**$1,320.00**	**$1,320.00**	**$1,320.00**	**$1,320.00**
Banks-Retail												
Loan Amount			$75,001	$100,000	$125,000	$150,000	$175,000	$200,000	$225,000	$250,000	$275,000	$300,000
Borrower Paid Origination 0%			0	0	0	0	0	0	0	0	0	0
Loan Officer Compensation (.75%)		x	$562.51	$750.00	$937.50	$1,125.00	$1,312.50	$1,500.00	$1,687.50	$1,875.00	$2,062.50	$2,250.00
Underwriting		x	$995	$995	$995	$995	$995	$995	$995	$995	$995	$995
Doc Prep		x	$150	$150	$150	$150	$150	$150	$150	$150	$150	$150
Appraisal Review		x	$175	$175	$175	$175	$175	$175	$175	$175	$175	$175
Processing Fee		x										
Admin Fee		x										
Total Fees for QM test			$1,882.51	$2,070	$2,258	$2,445	$2,633	$2,820	$3,008	$3,195	$3,383	$3,570
Maximum Allowed			$2,250.03	$3,000.00	$3,750.00	$4,500.00	$5,250.00	$6,000.00	$6,750.00	$7,500.00	$8,250.00	$9,000.00
Meets 3% Fee Test			*PASS*	*PASS*	*PASS*	*PASS*	*PASS*	*PASS*	*PASS*	*PASS*	*PASS*	*PASS*
Total loan fees paid by Consumer*			**$1,320.00**	**$1,320.00**	**$1,320.00**	**$1,320.00**	**$1,320.00**	**$1,320.00**	**$1,320.00**	**$1,320.00**	**$1,320.00**	**$1,320.00**
How Banks show no fees, increase rate by .25%												
Loan Officer Compensation (.75%)		x	$562.51	$750.00	$937.50	$1,125.00	$1,312.50	$1,500.00	$1,687.50	$1,875.00	$2,062.50	$2,250.00
Underwriting		x	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Doc Prep		x	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Appraisal Review		x	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Processing Fee		x										
Admin Fee		x										
Total Fees for QM test			$562.51	$750.00	$937.50	$1,125.00	$1,312.50	$1,500.00	$1,687.50	$1,875.00	$2,062.50	$2,250.00
Maximum Allowed			$2,250.03	$3,000.00	$3,750.00	$4,500.00	$5,250.00	$6,000.00	$6,750.00	$7,500.00	$8,250.00	$9,000.00
Meets 3% Fee Test			*PASS*	*PASS*	*PASS*	*PASS*	*PASS*	*PASS*	*PASS*	*PASS*	*PASS*	*PASS*
Total loan fees paid by Consumer*			**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**
Increased Interest Expense to Consumer			**$2,855.50**	**$3,807.28**	**$4,759.10**	**$5,710.92**	**$6,662.74**	**$7,614.56**	**$8,566.38**	**$9,518.21**	**$10,470.03**	**$11,421.85**

* Total loan fees paid by the consumer are the sum of the underwriting, doc prep, appraisal review, processing, and admin fees.