VHDA®

July 12, 2011

BY PRIORITY MAIL

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

Re: Ability to Repay/Qualified Mortgage
Docket No. R-1417; RIN No. AD 7100 AD 75

Dear Ms. Johnson:

The Virginia Housing Development Authority (VHDA) hereby provides the following comments on Docket No. R-1417.

1. Support of Definition of Qualified Mortgage that Operates as a Safe Harbor. VHDA fully supports the definition of a "qualified mortgage" ("QM") in the regulations that operates as a safe harbor as opposed to a rebuttable presumption. It is absolutely critical that lenders and investors be able to conclusively determine if the loans are QMs. Defining QMs as a safe harbor makes this determination possible and gives lenders a strong incentive to make qualified mortgages in exchange for reduced regulatory burden and exposure to liability. Consumers will benefit by being provided mortgage loans that do not have certain risky features or high costs. The alternative, a rebuttable presumption, will provide a lender with no legal certainty and thus less incentive to make QMs.

2. Request that Loans Originated Under Housing Finance Agency Programs Be Deemed Qualified Mortgages. In order to give housing finance agencies ("HFAs") the flexibility necessary to carry out their mission of financing the purchase of homes by low to moderate income homebuyers, loans originated under HFA programs should be deemed to be QMs that are entitled to the safe harbor. Under Section 1412 of the Dodd-Frank Act, HUD/VA/Agriculture/Rural Housing may develop their own regulations defining what is a qualified mortgage with respect to the loans that they insure, guarantee, or administer, and this treatment of HFA loans would be similar. In addition, because HFA loans have been recognized as being lower risk than other types of single family loans, HFAs have been given similar exemptions from the risk retention and SAFE Act regulations.

HFAs have a successful history of offering high loan to value products, including loans with down payment assistance for low to moderate income households, based on prudent loan underwriting, appropriate debt-to-income ratios, full loan documentation and verification, and the requirement of homeownership education counseling for potential borrowers. HFAs traditionally have stricter qualifying standards (i.e., lower maximum debt-to-income qualifying ratios) that exceed those of the GSEs and FHA. In addition, HFAs follow servicing policies designed to assist borrowers in remaining in their homes, and HFAs' programs have provided successful loan modifications for borrowers who become delinquent on their loans.

In recent years, the delinquency and foreclosure rates on HFAs' single family loans have remained low in comparison to other types of single family loans. HFAs have not engaged in the predatory or subprime lending activities or offered the high risk loan products that have caused the problems in the housing and bond market. HFA delinquency and foreclosure rates remained low and increased only as unemployment reached peak levels. HFAs are state agencies established to meet the affordable housing needs of the state and are subject to supervision by state legislatures and administrations that oversee their programs to ensure that their loans are prudent and secure. As a result of these sound practices, HFA single family loans have been low risk for investors, as evidenced by the high ratings on their bond issues and general obligations. HFAs as a group have not posed a systemic risk to the financial system.

The intent of the ability to repay requirements is to protect consumers by encouraging the making of loans that do not have certain risky features and to establish certain minimum underwriting standards that will minimize risk to the financial system. Because HFAs have not engaged in predatory or subprime lending activities or offered high risk loan products, and because HFAs have followed prudent underwriting guidelines, it is requested that the ability to repay regulation deem loans originated under HFA programs to be qualified mortgages that are entitled to the safe harbor.

If you have any questions or need any additional information concerning our comments, please feel free to contact VHDA.

Sincerely,

Susan F. Dewey

Susan F. Dewey
Executive Director