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ACCORD Corporation

Community Action Agency • Rural Preservation Company

Charles Kalthoff
Executive Director

Marlene Babchak
Deputy Executive Director

Corporate Office
84 Schuyler Street
PO box 573
Belmont, NY 14813-0573
Tel: (585) 268-7605
Fax: (585) 268-7241

Crisis Hotline
(800) 593-5322

Website
www.accordcorp.org

July 25, 2011

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street & Constitution Ave., N.W.
Washington, D.C. 20551
Re: Docket No. R-1411 (Credit Risk Retention)

Via e-mail to: regs.comments@federalreserve.gov

Dear Ms. Johnson:

In the wake of the financial crisis, a return to responsible lending has been sought by Congress, regulators, borrowers and lenders alike. It is through responsible lending that we will emerge from this crisis. However, regulators must avoid broad regulatory reform that would prevent thousands of creditworthy borrowers from qualifying for an affordable loan. We should seek rules that bolster responsible lending, but we must be careful not to throw the baby out with the bathwater.

As part of the financial reform legislation, Congress designed a clear framework for improving the quality of mortgage lending and restoring private capital to the housing market. To discourage excessive risk taking, Congress required securitizers to retain five percent of the credit risk on loans packaged and sold as mortgage securities. However, because across-the-board risk retention would impose significant costs on responsible, creditworthy borrowers, legislators also created an exemption for Qualified Residential Mortgages ("QRM"), defined to include mortgages with product features and sound underwriting standards that have been proven to reduce default.

Unfortunately, regulators have drafted proposed QRM rules that upset the important balance between the need for credit standards and the need to improve access to credit contemplated by Congress. Rather than creating a system of penalties to discourage bad lending *and* incentives for appropriate lending, regulators have developed a rule that is too narrowly drawn. Of particular concern are the provisions of the proposal mandating high down payments – proposed at 20 percent, with even higher levels of minimum equity required for refinancing.

This overly strict requirement will increase the cost of homeownership, prevent scores of families from purchasing a home to call their own, and further injure an extremely weak housing market. It will also make it extremely difficult for modest income and minority borrowers from ever becoming homeowners. As a result, responsible consumers who maintain good credit and seek safe loan products will be forced into more expensive mortgages under the terms of the proposed rule simply because they do not have 20 percent or more in down payment or equity. These mortgages will be more expensive for consumers because the capital and other costs of retaining risk will be passed onto them, if the private market chooses to offer loans outside of the QRM standard at all. In other words, the proposal unfortunately penalizes qualified, low-risk borrowers.

Requiring down payments of 20 percent or more is deemed by some as "getting back to basics." While it is true that sensible lending fell by the wayside in the lead-up to the financial crisis, well-underwritten low down payment home loans have been a significant and safe part of the mortgage finance system for decades. Taking each borrower on a one-by-one basis, and providing that borrower with an appropriate mortgage that he or she has the ability to pay is the foundation of responsible lending. This is what community banks do. The community lender knows good credit when it sees it.

Regulators should redesign a QRM that comports with Congressional intent: encourage sound lending behaviors that support a housing recovery, attract private capital and reduce future defaults without punishing responsible borrowers and lenders. We need to come out of this crisis with a stable and working housing market; disqualifying thousands of low-risk borrowers from becoming homeowners before they even have a chance to become contributing members of their communities will not help us achieve this goal.

Sincerely,

Charles T. Kalthoff

Charles T. Kalthoff
Chair, Federal Home Loan Bank of New York
Affordable Housing Advisory Council