MISSOURI CREDIT UNION ASSOCIATION

August 1, 2011

Jennifer J. Johnson
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
reg.comments@federalreserve.gov

RE: Michael V. Beall, Esq., - "Credit Risk Retention"
Docket No. 2011-1411 and RIN 7100 No. AD 70

Dear Ms. Johnson:

On behalf of Missouri's 139 credit unions, the Missouri Credit Union Association (MCUA) would like to comment on the proposed "Credit Risk Retention", specifically on the Qualified Residential Mortgage proposal. MCUA agrees that securitizers should maintain "skin in the game" by retaining an interest in an asset such as a mortgage loan to mitigate the potential risk of a repeat of the recent mortgage crisis.

MCUA encourages safe and sound lending practices. However, it should not come at the expense of withholding credit from responsible borrowers and penalizing conscientious lenders.

Definition of QRM

The proposal includes a definition with stringent underwriting standards including the following where the borrower:

- is less than 30 days past due on ANY debt obligation,
- is less than 60 days past due on any debt obligation in the preceding 24 months,
- provides a 20 percent down payment in the case of a purchase, no PMI,
- has front-end and back-end debt-to-income ratios of 28 percent and 36 percent, respectively,
- has maximum loan-to-value of 80% purchases, 75% refinances, and 70% refi with cash out, and
- pays total points and fees less than 3% of the loan amount.

Impact to Consumers

Including overly restrictive underwriting standards, such as not being past due on ANY obligation, will force consumers who have a high propensity to pay all their debts on time into less favorable, more expensive mortgage loans. Unfortunately, these restrictions may prohibit consumers who are good credit risks from obtaining a mortgage loan.

For the QRM, the statute recommends that regulators consider standard loans for eligibility which are covered by mortgage insurance or other credit enhancements when they reduce the risk of default. The three sponsors of the QRM provisions have stated that they oppose down payment requirements in the QRM. Historical data has shown that well underwritten mortgage loans with lower down payments have consistently proven to be sound credit risks.

Furthermore, requiring more substantial down payments for a refinancing may lead to more foreclosures. In a largely declining real estate/recessive market, credit worthy consumers may become ineligible to refinance at an attractive lower rate.

Lastly, we would like to address the total points and fees paid by the borrower not to exceed 3% of the loan amount. This provision may have a disparate impact on consumers who do have substantial down payments on real estate and who need to borrow less on a property which has lost value. Fees paid by the borrower are often fixed fees, such as appraisal and title search fees. Setting a cap based on the loan amount will have a disproportion negative effect on smaller loan requests. Based on the proposed formula, this proposal may cause lenders to deny credit worthy applicants. We believe the formula does not directly relate to the quality of the loan.

Harm to Consumers

According to the National Association of Home Builders, every 1 percentage point increase in mortgage rates means that 4 million households will no longer be able to qualify for the median-priced home. A 100 basis point increase in a 30-year fixed mortgage rate reduces the pace of new and used home sales by nearly 425,000. It also lowers the median existing house prices by 8.5% and the homeownership rate drops by a full percentage point. Such a restrictive definition of QRM means that many qualified risk mortgages will not qualify as QRMs and will receive less than favorable terms. Consequently, they will no longer be able to qualify for a mortgage.

MCUA is concerned that the QRM proposal will become the standard for most residential mortgage loans, which might curtail mortgage lending by credit unions and preclude some otherwise qualified borrowers from receiving mortgage loans. The proposed regulation is too narrow in its definition of a QRM and will prohibit qualified borrows from obtaining preferable product features and loan terms.

Please reconsider alternatives that would encourage behaviors that reduce future defaults without punishing responsible consumers and lenders.

The MCUA appreciates the opportunity to comment.

Sincerely,

Michael V. Beall, Esq.
President/CEO