



Monday June 6, 2011

Board of Governors of the Federal Reserve System
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Distinguished Members of the Board of Governors:

The Minnesota Mortgage Association (MMA) is the only mortgage association in the state of Minnesota, representing mortgage bankers, brokers, lenders, and affiliated organizations. The MMA is a member-governed organization dedicated to integrity and professionalism in the mortgage industry. Members of the Minnesota Mortgage Association adhere to a strict code of ethics.

The MMA supports the goal of the Federal Reserve in its efforts to improve the integrity of mortgage backed securities and to incent the entry of private entities into the MBS market. We also support the effort to improve the underwriting standards for home mortgages to avoid the meltdown that occurred in 2007-2008 caused by the reckless subprime underwriting standards in the years immediately preceding the collapse. The proposed Qualified Residential Mortgage Rule issued by the Board clearly seeks to address these issues. Below, please find our comments to the proposed QRM definition required June 8, 2011.

Scope of Comment:

It is the intent of the MMA to limit our comment to the definition of a Qualified Residential Mortgage (QRM). While the MMA understands and supports the Board's goals that are intended to be met by implementing the current version of the QRM, the MMA feels that the impacts, outcomes and consequences of the following areas need to be more substantially considered before any QRM definitions are set.

- The current definition of a QRM stigmatizes low down payment lending and borrowers that do not meet QRM. Indeed, the very existence of a QRM necessarily imposes a second class status to mortgages that do not meet this high standard. This second class (subprime) standard will deter lenders and investors from participating in this market, unless substantially higher margins (increased borrower costs) can be obtained. Increasing the costs of borrowing to this market segment will necessarily have a dampening impact on the recovery of the real estate market by excluding potential home buyers
- Current QRM will shift a significant share of low down payment lending to government home lending programs (FHA, VA and Rural Development) placing a greater risk and burden to the taxpayers, rather than in the hands of the private markets.
- Loan to value and down payment requirements are particularly onerous. At the median home price of \$172,100, the down payment requirement to meet QRM standards would be \$34,420 before an estimated 5% of sales price for closing costs is taken into account. This amount is not only burdensome for all first and second time homebuyers, but is especially burdensome, almost to the point of exclusion, for households who are currently renting. In high cost markets, this barrier to homeownership becomes even more pronounced.
- The 28/36 underwriting ratios overly restricts responsible lending practices. The underwriting standard is antiquated. Modern responsible underwriting looks at layered risks and offsetting factors.



Currently defined QRM punishes low income homeownership programs for the sins of previous predatory and abusive lenders. These programs have been extremely successful in liquidating the REO market, and enabling millions to achieve responsible homeownership. At a time when the real estate market is still under duress with foreclosures (real and shadow) REO's, short sales and underwater mortgages, the impact of the QRM cannot be fully assessed or realized. Given current underwriting practices, increased scrutiny and fraud detection, and the disappearance of the sub prime market, the risk of deferring implementation of the QRM is small.

Summary

It is the sincere belief of the MMA that the currently defined QRM is being instituted without a full analysis of the impact such a definition would have on low income housing, responsible home ownership programs, the secondary market and on the costs of home ownership. The MMA therefore strongly recommends that QRM, as currently defined in the proposal, not be implemented. Rather, we strongly feel that the Qualified Mortgage (QM) definition, which focuses on the ability to repay the debt obligation, be the standard for the QRM.

The MMA values the relationship it has with the Federal Reserve, and looks forward to participating and cooperating where needed on any further study of the compensation issue. On behalf of our diverse membership, we thank you for considering our comments on this very important issue.

Respectfully,

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