



June 6, 2011

BY PRIORITY MAIL

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

Re: Credit Risk Retention
Docket Number R-1411

Dear Ms. Johnson:

The Virginia Housing Development Authority (VHDA) hereby provides the following comments on Docket Number R-1411.

1. Support of Exemption for Bonds of States and Their Political Subdivisions. VHDA fully supports the exemption in the proposed regulations for bonds issued by states and their political subdivisions. This exemption will enable state housing finance agencies (HFAs) like VHDA to issue bonds to carry out their mission of financing the purchase of homes by first-time homebuyers without the costs and restrictions of meeting the risk retention requirement. As more fully discussed below, HFAs have successfully accomplished this mission by following sound underwriting practices and without posing risks to the financial markets.

2. Request for Exemption for Loans Originated under HFA Programs. In order to give HFAs the flexibility in the future to access the financial markets by means other than the issuance of bonds, an additional exemption from the risk retention requirements should be included for securitization transactions that are collateralized by residential mortgage loans originated under programs of HFAs, such as VHDA. This exemption would be similar to the exemptions in the proposed regulations for securitization transactions collateralized by FHA/VA/RD mortgage loans or for securities issued or guaranteed by Fannie Mae, Freddie Mac or Federal Home Loan Banks. HFAs are state agencies and authorities established to help meet the affordable housing needs of the state and are supervised by their state governments, unlike other issuers of mortgage securities.

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

Ms. Jennifer J. Johnson
June 6, 2011
Page 2

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. As mentioned, HFAs 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.

Because of the current state of the bond market, HFAs must consider the use of alternative means to raise capital for their single family loan programs. Currently, the HFAs have access to the U.S. Treasury's New Issuance Bond Program; however, that program expires at the end of 2011 and is not likely to be extended. While the GSEs offer programs that provide such capital, the future of the GSEs is in doubt, and the Dodd-Frank Act contains an exception for the securities issued or guaranteed by GSEs only while in conservatorship. At some point after the end of 2011, if the tax exempt bond market conditions do not improve and the GSEs are no longer in conservatorship or are discontinued or replaced by other entities, HFAs will need to raise capital for their programs through other methods that are not exempt from the risk retention requirement under the proposed regulations. Application of the risk retention requirement to the HFAs loan programs would impose restrictions and costs that would substantially impair their ability to meet their public purpose of assisting low and moderate income households to purchase their homes. HFAs strive to keep interest rates on their loans low to increase housing affordability for low to moderate income first-time homebuyers. The retention of capital by HFAs to meet the risk retention requirement would substantially increase the cost of financing those loans with a resulting increase in the interest rates to the borrowers and/or a negative financial impact on the HFAs ability to carry out their programs. If the residential loans of HFAs are required to meet the down payment and other requirements for Qualified Residential Mortgages, most first-time homebuyers would be unable to meet those requirements, and those who could meet the requirements will be steered to lenders that offer non-QRM loans at higher interest rates to compensate for the risk retention cost. The effect will be that many first-time homebuyers will be unable to afford to purchase their homes and those households that can afford to purchase their home will pay higher interest rates on their loans.

Because HFA programs are an important source of funding for first-time homebuyers, such impact on these programs would also adversely affect the condition of

Ms. Jennifer J. Johnson
June 6, 2011
Page 3

the housing market which depends on the participation of first-time homebuyers to generate the sales for existing homeowners to purchase their next home.

For the above reasons, it is recommended that the regulations contain an exception for securitization transactions that are collateralized by residential mortgage loans originated under programs of HFAs.

3. Qualified Residential Mortgage Requirements. As with our industry partners- the National Association of Realtors, Mortgage Bankers Association, National Association of Home Builders and the American Bankers Association- VHDA strongly supports the intention of the Qualified Residential Mortgage (QRM) exemption from the risk retention requirements. The original purpose and intent of the provision in the Dodd-Frank Act was to establish an exemption from risk retention for well-underwritten, fully documented, sound and sustainable mortgage loans. However, we also believe that the proposed rule goes beyond what Congress intended and would drastically limit affordable mortgage financing options for moderate-income families, first-time homebuyers, minorities and many others with limited equity and threatens to disturb the balance between the rental and homeownership market. This is an extremely important rule that will have an enormous impact on families, markets and the housing recovery for years to come. Therefore, we generally support the comments of our above named industry partners that would make the requirements for QRMs in the proposed regulations less restrictive, particularly the loan-to-value and down payment requirements.

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

Sincerely,



Susan F. Dewey
Executive Director