

6/23/2011 Model QRM Letter for REALTORS®

Honorable Ben S. Bernanke  
Chairman  
Board of Governors of the  
Federal Reserve System  
Washington, DC 20551

Honorable Sheila C. Bair  
Chairman  
Federal Deposit Insurance Corporation  
Washington, DC 20429

Mr. Edward J. DeMarco  
Acting Director  
Federal Housing Finance Agency  
Washington, DC 20552

Honorable Mary L. Shapiro  
Chairman  
Securities and Exchange Commission  
Washington, DC 20549

Honorable Shaun Donovan  
Secretary  
Department of Housing & Urban Development  
Washington, DC 20410

Mr. John G. Walsh  
Acting Comptroller  
Office of the Comptroller of the Currency  
Washington, DC 20219

Re: Credit Risk Retention Proposed Rule  
Transmitted electronically to [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov) (Docket No. R-1411)

Ladies and Gentlemen:

I urge you to reconsider your proposed rule to implement the risk retention provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act that are designed to discourage excessive risk taking by lenders and securitizers. To avoid hurting creditworthy families, Congress exempted from risk retention Qualified Residential Mortgages (QRMs) that have lower risks of default, help ensure high quality underwriting, and improve consumer access to credit on reasonable terms or are otherwise in the public interest and for the protection of investors. By imposing a minimum 20 percent down payment (and even higher equity requirements for those seeking to refinance), very low debt-to-income ratio requirements, and rigid credit standards, the narrow definition of QRM in the proposed rule fails to meet these statutory standards and will deny millions of Americans access to the lowest cost and safest mortgages.

The narrow definition of a QRM mortgage is simply not necessary to assure safe and sound mortgage lending. Traditional mortgages, without risky features such as teaser rates and balloon payments, coupled with sound underwriting and documentation of income and assets, perform well with relatively low default rates. During the recent crisis, for example, FHA loans with down payments as low as 3.5% have had a relatively low default rate, compared to subprime and Alt-A mortgages with risky features and weak underwriting.

Millions of families will fail to qualify for a QRM mortgage and have to pay higher rates and fees for a non-QRM mortgage, if they are even able to qualify. For example, in looking at loans

made in 2008, raising the downpayment from 5% to 20% reduces the default rate by only 0.6% but makes 20.7% of borrowers ineligible for a QRM loan. The National Association of REALTORS® estimates non-QRM mortgages will cost from 80 to 185 basis points more than a QRM mortgage, in addition to higher fees. A median income family would need 16 years to save for a 20% down with closing costs estimated at 5% of the loan amount to purchase a median priced home. That assumes the family allocates 100% of its savings towards a downpayment for a home. The impact on minority families with lower median incomes is even more severe. The high down payment requirements will, as a practical matter, be a permanent bar to homeownership unless the family is able to obtain an FHA loan. Further concentration of the mortgage market in federal programs is not the solution.

Please refer to the comments on the proposed rule submitted by the 45 member Coalition for Sensible Housing Policy for more detailed analysis of the problems that would be created by the proposal and citations to relevant data.

Thank you for the opportunity to comment on the proposed rule. I trust your response will be to reconsider the initial, unworkable approach and move forward with a broad definition of QRM that includes a full range of safe and sound mortgages to enhance access to homeownership for qualified, creditworthy homebuyers and homeowners and to avoid harm to the housing market or the American economy.

Sincerely yours,

cc:  
Honorable Timothy F. Geithner  
Secretary  
Department of the Treasury  
1500 Pennsylvania Ave. NW  
Washington, DC 20220