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July 29, 2011

DRAFT

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Acting Comptroller
Office of the Comptroller of the Currency
Washington, DC 20219

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

The Honorable Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
Washington, DC 20429

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

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

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

Subject: Interagency Proposed Rule regarding "Credit Risk Retention"

Office of the Comptroller of the Currency
12 CFR Part 43 [Docket No. OCC-2011-0002]

regs.comments@occ.treas.gov
RIN 1557-AD40

Federal Reserve System
12 CFR Part 244 [Docket Number: 2011-1411]

regs.comments@federalreserve.gov
RIN 7100-AD 70

Federal Deposit Insurance Corporation
12 CFR Part 373

comments@fdic.gov
RIN 3064-AD74

Securities and Exchange Commission
17 CFR Part 246 [Release No. 34-64603; File No. S7-14-11] Rule-comments@sec.gov
RIN 3235-AK96

Federal Housing Finance Agency
12 CFR Part 1234 RegComments@fhfa.gov
RIN 2590-AA43

Department of Housing and Urban Development
24 CFR Part 267 via www.regulations.gov
RIN2501-AD53

Dear Ladies and Gentlemen:

On behalf of NeighborWorks® America (also known as Neighborhood Reinvestment Corporation) I want to thank the Agencies for the opportunity to provide comments in regard to the Proposed Rule regarding “Credit Risk Retention” as published in the Federal Register on Friday, April 29, 2011 (Vol. 76, No. 83 -- Page 24090).

Given that the Credit Risk Retention rule is currently pending before a number of NeighborWorks America’s board agencies, these comments have not been submitted to or approved by NeighborWorks America’s board. These comments reflect the views of NeighborWorks America’s management, and do not necessarily represent the views of its board members, either collectively or as individuals.

NeighborWorks America is generally supportive of the Proposed Rule, but has concerns regarding the proposed definition of Qualified Residential Mortgages (QRMs).

As written, the proposed QRM serves as a very blunt tool, for what should be a more sensitive analysis of credit risk.

The uncertainty around GSE reform and the future of the GSE’s raises concerns that the proposed definition of QRMs may be widely used within the real estate financing industry as a proxy for “a good mortgage” – and that anything that does not meet that definition will be interpreted to be “a bad or risky mortgage”.

If this occurs, the proposed definition of QRMs, as currently written, could have a severe negative impact on:

- The ability of low- to moderate-income families (including many potential first-time homebuyers, families of modest means, and a disproportionate number of minority families) to access reasonably priced mortgages;
- Efforts to strengthen and stabilize communities -- including the work of local, community-based NeighborWorks organizations and other nonprofit community development organizations working to expand affordable housing opportunities for responsible/qualified borrowers -- further delaying the economic recovery of communities in an already fragile housing market and already reeling from the impact of declining property values; excess real estate inventory, including a significant number of foreclosed/REO properties; high vacancies; and overall blight;
- The ability of current homeowners to refinance or sell their homes, trapping some families in situations where they are over-housed, but:
 - With a lack of mobility or savings; and
 - For many elderly families, inadequate resources for retirement.

Further, the proposed definition of QRM may encourage the creation of a new generation of sub-prime mortgages, as fringe private-sector lenders seek to provide mortgages to those who may not be adequately served by regulated lenders due to the proposed QRM requirements.

A long-standing tenet of American values has included the ability for responsible families and individuals to move up the economic ladder. That opportunity will be severely diminished if future generations cannot afford to buy their own homes.

In fact, a study released by the Pew Research Center on July 26, 2011 (titled: “Wealth Gaps Rise to Record Highs Between Whites, Blacks, Hispanics”) points out that the median wealth of white households is now 20 times that of black households and 18 times that of Hispanic households. The Pew Research study found that the bursting of the housing bubble in 2006 and the recession that followed from late 2007 to mid-2009 took a far greater toll on the wealth of minorities than whites.

Because of these wealth gaps, there is an inherent unfairness built into the definition of QRM which will serve to discriminate against families with good credit who do not have access to the same level of intergenerational resources (i.e., monetary gifts from family members) to cover the downpayment hurdle created by the proposed definition of QRM.

It seems clear that even if non-QRM mortgages are available to borrowers who do not meet the proposed requirements, those borrowers will pay a higher cost for the non-QRM mortgage --- and ironically, the higher resulting payment will increase their odds of delinquency and default.

NeighborWorks America is not simply concerned about the individual potential borrowers who may be squeezed out of the home-buying and refinance market. We are also seriously concerned about the resulting consequence, that if such potential borrowers *are* squeezed out of the market, many of the properties that they may otherwise have purchased will likely be acquired by speculators or absentee owners – negatively affecting efforts to revitalize and strengthen communities, adversely impacting property values and the quality of life in such communities, and extending the stagnation of the housing market.

Additionally, the uncertain future of GSE reform could make the implications of QRM more detrimental to the affordable homeownership market.

We support the premise of reducing delinquency and default risk. A foreclosure hurts the investor, the homeowner and the community. We encourage the Agencies to do a deeper and more textured analysis of risk mitigants. While an 80% LTV is certainly a risk mitigant, there are other proven risk mitigants, including homeownership education and counseling. In addition, the proposed 80% LTV does not consider at all the behavior of the borrower. For some families, losing a 5% downpayment that they saved years for, is much more of a risk mitigant than some other borrower losing 20% down that was gifted to him/her by a parent, or represents a much smaller percentage of his/her income.

As explained more fully within this letter, from our experience we know that the best defense against mortgage delinquency and foreclosure is objective homeownership education and counseling before a borrower begins shopping for a home and selecting a mortgage product – or refinancing his/her home. And, the most effective homeownership education and counseling is provided through objective, well-trained, HUD-approved housing counseling agencies that put the consumers’ and the communities’ interests first.

The proposed rule, including the definition of QRM, provides a historic opportunity for the Agencies to provide very clear signals in support of “things that are working” in the current housing finance system.

NeighborWorks America urges that the definition of QRMs reflect the proven value of Homeownership Education and Counseling:

NeighborWorks America therefore urges the Agencies to establish and support good public policy by having the definition of QRM reflect the proven value of homeownership education and counseling provided by HUD-approved housing counseling agencies (as reflected in the demonstrated performance of counseled borrowers) – and strongly urges that the Proposed Rule provide for some easing of the proposed downpayment requirements for borrowers that successfully complete homeownership education and counseling that conforms to the National Industry Standards for Homeownership Education and Counseling. Further information regarding the National Industry Standards for Homeownership Education and Counseling is provided in a following section of this letter.

Nonprofit homeownership education and counseling organizations have been integral to extending mortgage financing to underserved populations and communities. Research (such as the studies cited below) and demonstrated experience has established that nonprofit homeownership education and counseling organizations improve the performance of the home mortgage loans by:

- Providing objective homeowner education and counseling, and consumer outreach, to nontraditional or underserved markets;
- Reaching an expanded client base by crossing cultural and linguistic barriers as well as by building community trust, and often by providing access to special mortgage products – including below-market first- and second-mortgages; and
- Through significant education, preparation and consistent guidance; identifying mortgage-ready potential home buyers and sending mortgage-ready applications to lenders; and ongoing tutelage and post-purchase counseling.

Research on the Benefits Homeownership Education and Housing Counseling:

Although comprehensive research has been scarce, largely due to the fact that there has not (until recently) been a consistent standard in regard to what constitutes homeownership education and counseling, research *has* demonstrated that education and counseling can provide numerous benefits to consumers and lenders.

Homeownership education and counseling has been shown to reduce defaults, increase credit scores, get buyers into lower-cost mortgages, improve borrowers’ financial standing and increase the likelihood of troubled borrowers seeking foreclosure prevention assistance.

As research by Freddie Mac indicates, “A little knowledge is a good thing.” Pre-purchase education and counseling has been shown to significantly reduce default among borrowers. A study by Freddie Mac of nearly 40,000 homebuyers showed that borrowers who received individual counseling were 34% less likely to become 90 days or more delinquent on their mortgage, while those who received classroom-based counseling were 26% less likely to become 90-days delinquent.¹

¹ Abdighani Hirad and Peter Zorn “A Little Knowledge Is a Good Thing: Empirical Evidence of the Effectiveness of Pre-purchase Homeownership Counseling.” May 2001. http://www.freddie.mac.com/corporate/reports/pdf/homebuyers_study.pdf

The study also found that non-profit organizations were the most effective in reducing delinquencies and that education and counseling delivered either individually or in a classroom setting was more effective than counseling delivered through home study or provided over the telephone.

The positive impact of homeownership education and counseling on delinquency and default was also found in a series of studies by researchers at Ohio State University. Their first study found that pre-purchase counseling that focused on cash flow reduced the incidence of default.² These researchers conducted two more studies, both of which showed decreases in mortgage default from pre-purchase counseling; the second study also shows a default rate for counseling borrowers that is two-thirds the rate for non-counseled borrowers.³ Finally, another group of researchers at Ohio State examined home mortgage loans in Chicago, finding that counseling dramatically improved mortgage performance, with a 15% decrease in delinquency rates and a 35% decrease in default rates.⁴

The studies by researchers at Ohio State University found that homeownership education and counseling works to reduce delinquency and default through a number of mechanisms, including improving creditworthiness, measured by credit scores, and by helping the borrower get a better mortgage product.

A rare randomized study by researcher J. Michael Collins found that financial education improved credit scores by 21 points, on average, and showed a significant increase in savings.⁵

Another study by researchers at Georgetown University of 14,000 individuals who received credit counseling found significant improvement in their creditworthiness, as measured by increased credit scores.⁶ This study found borrowers with initial scores in the lowest quintile improved their credit scores by an average of 36 points, relative to borrowers with the same scores in a comparison group. This increase represents a 38% reduction in the predicted frequency of a charge-off, repossession or bankruptcy.

Aside from improvements in credit scores, counseling can have other positive effects on loan product and behavior. A study by researchers at the City University of New York found that borrowers who received pre-purchase counseling had lower interest rates and took on less debt.⁷

² Valentina Hartarska, Claudio Gonzalez-Vega and David Dobos “Credit Counseling and the Incidence of Default on Housing Loans by Low-Income Households.” February 2002. Rural Finance Program, The Ohio State University.

³ Valentina Hartarska and Claudio Gonzalez-Vega (2005) “Credit Counseling and Mortgage Termination by Low-Income Households” *Journal of Real Estate Economics*, 30 (3): 227-243.

Valentina Hartarska and Claudio Gonzalez-Vega (2006) “Evidence on the Effect of Credit Counseling on Mortgage Loan Default by Low-Income Households” *Journal of Housing Economics*, 15 (1): 63-79.

⁴ Sumit Agarwal, Gene Amromin, Itzhak Ben-David, Souphala Chomsisengphet, and Douglas D. Evanoff. (2009) “Do Financial Counseling Mandates Improve Mortgage Choice and Performance? Evidence from a Legislative Experiment.” Ohio State University, Fisher College of Business, Charles A. Dice Center for Research in Financial Economics. 1-48.

⁵ J. Michael Collins. “The Impacts of Mandatory Financial Education: A Field Study.” <http://papers.ssrn.com>

⁶ Michael Staten, Gregory Elliehausen and Christopher Lundquist. “The Impact of Credit Counseling on Subsequent Borrower Credit Usage and Payment Behavior.” Georgetown University: Credit Research Monograph #36. March 2002.

⁷ Desirée Fields, Kimberly Libman, Susan Saegert, Helène Clark & Fran Justa. “Understanding Responses to the Threat of Foreclosure Among Low-Income Homeowners.” Housing Environments Research Group, The Graduate Center, City University of New York. March 2007.

A study by the Center for Housing Policy found that homeownership education and counseling —through credit score changes and reduced debt — has also been shown to improve the purchasing power of households, improving their financial status.⁸

Homeownership education and foreclosure intervention counseling also helps borrowers who are delinquent on their mortgages. The Urban Institute’s study of the National Foreclosure Mitigation Counseling Program (NFMC) found that clients served by the program, when compared to similar borrowers who had not received counseling through NFMC:

- Were 1.7 times more likely to cure their foreclosure.
- Those who were able to get a loan modification had much lower monthly payments than they would have without the program.
- Were 45% more likely to remain current on their mortgage once they had gotten a loan modification.
- Increased their odds of curing their foreclosure by 53% if they received counseling prior to their loan modification.

In an earlier study, researchers Robert Quercia and Spencer Cowan found that community-based foreclosure prevention programs were effective in reducing the time to resolution and rates of recidivism.⁹ This study also found that borrowers who received pre-purchase counseling were more likely to stay current on their loans.

The Federal Reserve Bank of Richmond reviewed a number of studies on the effectiveness of financial education, including many of the studies cited here, and concluded that there is a need for financial education and many existing approaches are effective.¹⁰ The Bank also concluded that these programs are most effective when tailored to the needs of recipients and include face-to-face time, whether one-on-one or in a classroom.

And, Alfred DelliBovi, President of the Federal Home Loan Bank of New York, in a July 22, 2011 article in National Mortgage News titled “Reclaiming the American Dream of Homeownership” stated: “In 1995, we started our First Home Club, which is a program in which the Home Loan Bank and our members assist low income first-time homebuyers with grants to help offset downpayment and closing costs when purchasing a home. A key component of this program is the mandatory homeownership counseling participants must complete prior to purchase. This counseling helps buyers learn about the responsibilities and expenses of homeownership, and provides them with a better understanding of the type of home suitable to them. Since its inception, the First Home Club has seen a default rate of just 0.54%. The counseling has worked.”

The National Industry Standards for Homeownership Education and Counseling (Homeownership Done Right™):

As mentioned in a section above, NeighborWorks America is specifically urging that the proven value of homeownership education and counseling be recognized in the Proposed Rule’s definition of QRM, but any recognition or easing of requirements should be applied only to borrowers who received homeownership education and counseling from housing counseling organizations that have adopted the National Industry Standards for Homeownership Education and Counseling.

⁸ Eric Hangen and Jeffrey Lubell. “Impacts of Homeownership Education and Counseling on Homebuyer Purchasing Power: Summary of Findings” Center for Housing Policy. 2007.

⁹ Roberto Quercia and Spencer Cowan, “The Impacts of Community-Based Foreclosure Prevention Programs.” *Housing Studies*. May 2008.

¹⁰ Matthew Martin “A Literature Review on the Effectiveness of Financial Education.” Federal Reserve Bank of Richmond, Working Paper 07-3. June 2007.

Homeownership counselors and educators play a vital role in building strong communities. Unifying the industry on the issue of education and counseling standards is the first step to achieving that goal on a national level.

The National Industry Standards for Homeownership Education and Counseling have drawn upon a variety of sources, including existing standards used by the U.S. Department of Housing and Urban Development (HUD) and local, regional, and national housing counseling organizations. Input on the Standards was gathered by the Advisory Council for the National Industry Standards from many industry partners, including national lenders, GSEs, HUD, mortgage insurers, executive directors and counselors of local, regional, and national organizations.

The National Industry Standards for Homeownership Education and Counseling focus on a set of six core areas.

- **Competency**, including strong knowledge of the home-buying process, money management, etc.
- **Training**, with recommendations for a minimum number of hours of training.
- **Code of Ethics and Conduct**, which practitioners should sign and abide by.
- **Skills**, including communication and listening skills, adult education and facilitation skills.
- **Operational Knowledge** regarding programs, marketing, etc.
- **Performance Standards** for practitioners, which include standards curriculum, recordkeeping, and reporting.

The Standards documents were created by the Advisory Council for the National Industry Standards for Homeownership Education and Counseling. Members of this group include the following:

- Bank of America
- Chase
- Chrysalis Consulting Group, LLC
- Citi
- Community Development Corporation of Long Island, Inc.
- Consumer Credit Counseling Services of San Francisco
- Fannie Mae
- Federal Reserve Board
- Freddie Mac
- The Housing Partnership Network
- Minnesota Housing
- Mortgage and Credit Center
- NAREB-NID
- National Association of Realtors®
- National Council of La Raza (NCLR)
- National Council of State Housing Finance Agencies
- NeighborWorks® America
- NHS of Great Falls
- U.S. Department of Housing and Urban Development
- Wells Fargo

Further information regarding the National Industry Standards for Homeownership Education and Counseling can be found at: <http://www.homeownershipstandards.org/>

NeighborWorks America urges that the definition of QRM recognize community revitalization efforts by federal, state or local government funded nonprofit organizations:

NeighborWorks America recommends the proposed definition of QRMs should recognize and reflect the difference between an individual borrower making a personal decision to purchase or refinance a home, and the work facilitated by federally-funded or local- or state-government-funded nonprofit organizations that are targeting specific areas for concerted/coordinated investment and improvement through publicly supported neighborhood stabilization or community revitalization efforts.

The Proposed Rule provides an opportunity for the Agencies to reinforce the fact that support for loans facilitated by 501(c)(3) tax-exempt nonprofit organizations as part of a government-funded, targeted community revitalization efforts, is simply good public policy.

For example, HUD's Neighborhood Stabilization Program (NSP) is dedicated to helping revitalize communities devastated by the foreclosure crisis, by providing funding to support efforts to return vacant, foreclosed properties back to productive use, through working partnerships involving local and/or state governments, qualified nonprofit organizations, financial institutions and the community. In Broward County, Florida, NSP dollars have resulted in 22 vacant, foreclosed homes purchased, 12 homes already rehabilitated, and 4 homes to be occupied by very low-income families. This effort also includes a group of 900 qualified families who are waiting for homes. Most of these potential homebuyers would not qualify for the program if they were required to provide a 20% downpayment for their first home.

The reality is, home mortgages facilitated by community-based nonprofit organizations have performed well. And yet, many of these mortgages would not qualify as QRMs under the proposed QRM definition. We fear the proposed definition of QRM will significantly affect the ability of nonprofit organizations to reach borrowers who have traditionally been underserved by regulated conventional lenders, and whose loans perform well.

Additional Recommendations Regarding the Proposed Definition of QRMs:

While supportive of the basic intent of the Proposed Rule, NeighborWorks America urges the Agencies to modify the definition of QRMs as follows:

Establish a separate, less rigorous standard for 30-year, fixed-rate mortgages:

Traditional 30-year, fixed-rate mortgages, where the borrower pays off interest and principal based on a fixed payment every month (without adjustable rates; balloon payments, etc.), and where the loan is fully documented, and the properties appropriately appraised, continued to perform quite well, relative to other mortgages — even at the height of the mortgage crisis.

NeighborWorks America recommends that the Agencies exempt 30-year, fixed rate mortgages from the credit-risk retention requirement, or develop less stringent QRM requirements for such loans.

Regarding downpayment:

- We recommend that the downpayment requirement be reduced to 10%.
- We further recommend that the downpayment requirement be reduced to 3% to 5%, only for borrowers who successfully complete homeownership education and counseling provided by HUD-approved housing counseling agencies, adhering to the “National Industry Standards for Homeownership Education and Counseling” – standards developed and endorsed by HUD, NeighborWorks America and other major players in the affordable housing and housing counseling fields.

It should be noted that such HUD-approved counseling agencies are subject to considerable oversight and regulation imposed by HUD, the Internal Revenue Service [to qualify for, and maintain their 501(c)(3), tax-exempt status] and various federal, State and local government agencies providing funding to the organizations.

Regarding debt-to-income ratios:

The proposed debt-to-income ratios, would by definition, adversely impact lower-income households, who typically pay a higher percentage of their income for housing.

The proposed debt-to-income ratios will create unnecessary barriers for otherwise creditworthy borrowers. Many current renters are already paying significantly higher percentages of their income for rent and other expenses – and are doing so without debt delinquencies. To deprive these families, who have already demonstrated their ability to pay a higher percentage of their income for housing, the opportunity when they are ready for homeownership, would be tragic – and would disproportionately affect credit-worthy lower-income borrowers.

It would be equally tragic and unfair to deny current homeowners, who are already paying higher front-end and/or back-end ratios, the opportunity to refinance their current mortgage on the best available terms, because they do meet the proposed debt-to-income ratios of the QRM.

- Therefore, only for borrowers who successfully complete homeownership education and counseling provided by HUD-approved housing counseling agencies, adhering to the “National Industry Standards for Homeownership Education and Counseling”, we recommend that the front-end ratio be set at 31%, and the back-end ratio be set at 45%.
- For an existing homeowner seeking to refinance a mortgage, who has successfully completed housing counseling provided by HUD-approved housing counseling agencies adhering to the “National Industry Standards for Homeownership Education and Counseling”, we recommend that the homeowners refinanced mortgage should be permitted to exceed these front-end and back-end ratios provided that:
 - The refinanced loan is a fixed rate loan with a term of not less than 25 years;
 - The resulting loan payment amount is judged to be affordable to the borrower by their HUD-approved housing counseling agency;
 - The resulting monthly payment is lower than the payment on their current mortgage;
 - The new debt-to-income ratios are in no instance higher than the homeowner’s current front-end or back-end ratio; and
 - The homeowner has not been delinquent on their mortgage during the preceding 24 month period, or during the life of their mortgage if the mortgage is less than two years old.

Regarding borrower's credit history:

- For borrowers who successfully complete homeownership education and counseling provided by HUD-approved housing counseling agencies, adhering to the “National Industry Standards for Homeownership Education and Counseling”, we recommend that a mortgage loan should qualify as a QRM if the borrower was not currently 30 or more days past due, in whole or in part, on any housing-related debt obligation, and the borrower had not been 60 or more days past due, in whole or in part, on any housing-related debt obligation within the preceding 24 months. A housing-related debt obligation would be a debt on their mortgage or any subordinate mortgage, debt on rent (in the case of a current renter, seeking to obtain a mortgage), debt on utilities, or debt on taxes.
- We recommend retention of the proposed condition that: A borrower must not have, within the preceding 36 months, been a debtor in a bankruptcy proceeding, had property repossessed or foreclosed upon, engaged in a short sale or deed-in-lieu of foreclosure, or been subject to a Federal or State judgment for collection of any unpaid debt.
- NeighborWorks America agrees with the proposed rule that a credit score threshold should not be part of the QRM definition. A credit history, demonstrating borrower behavior, is clearly important. But a credit score threshold is not.

Regarding Eligible Loans:

NeighborWorks America recognizes that many subordinate loans, or so-called “piggy-back loans” have performed poorly and supports efforts to curb past practices which contributed to the current housing and economic crisis. However, from our experience we know that not all secondary or subordinate loans are created equal. Local NeighborWorks organizations and many other nonprofit organizations across the country have effectively used second mortgages to help families purchase or improve their homes. These second mortgages are frequently funded using various sources of public sector funds (including HUD HOME funds and CDBG funds, Treasury CDFI funds and state and local government programs). These loans are offered in conjunction with an appropriate level of homeownership education and counseling, and are often provided at below-market interest rates or are forgivable after a given period of time. These types of subordinate loans have performed well, and should be encouraged – but only when offered in conjunction with homeownership education and counseling provided by HUD-approved housing counseling agencies adhering to the “National Industry Standards for Homeownership Education and Counseling.

The Proposed Rule Provides an Opportunity to Build a System to Support Homeownership Education and Counseling

Homeownership education and counseling services have been largely supported by public funds, charitable/philanthropic grants, cross-subsidization, and fee-for-service (paid either by the borrower or by the lender). There is a clear need to expand the availability of homeownership education and counseling and create a sustainable funding model for quality homeownership education and counseling.

Some regulated mortgage originators and servicers have provided limited support for homeownership education and counseling (through charitable/philanthropic grants, fee-for-service, or cost-reimbursement) but many other mortgage originators and servicers have not.

NeighborWorks America recommends that all mortgage originators and servicers should be required to financially support homeownership education and counseling, as a cost of doing business – and suggest that the final Credit Risk Retention Rule could be a vehicle to implement that.

If there were a counseling fee attached to all first-mortgages closed, the funds could be placed in a national pool, to be awarded to counseling agencies through a competitive application with a fee-per-client counseled basis (similar to the way in which NeighborWorks America awards the congressionally-appropriated National Foreclosure Mitigation Counseling program) or on an annual competitive application basis (similar to the way in which HUD Housing Counseling funds have been awarded).

Every borrower (and mortgage originator and servicer) would benefit from having access to homeownership education and counseling during the term of their mortgage and from having well-informed and foreclosure-resistant borrowers.

Homeownership Education and Counseling Should be Required for Exotic Mortgages

NeighborWorks America also encourages the Agencies to require homeownership education and pre-purchase counseling for first-time home buyers obtaining anything other than a 25 to 30 year, fixed-rate mortgage (with constant monthly payments and no balloon payments). Since two of the most important decisions regarding a home purchase are the selection of the home and the financing product, we believe that pre-purchase education and counseling should happen at least 60 to 90 days before a loan application is taken by a loan officer.

Background Information Regarding NeighborWorks America:

NeighborWorks America was established by Congress in 1978 as the Neighborhood Reinvestment Corporation. The Corporation receives a direct annual federal appropriation. The corporation's Board of Directors is made up of senior representatives of the federal financial regulatory agencies (the Federal Reserve; the Federal Deposit Insurance Corporation; the Comptroller of the Currency; the National Credit Union Administration) and the Secretary of HUD.

The primary mission of NeighborWorks America is to expand affordable rental and homeownership opportunities and to strengthen distressed urban, suburban and rural communities across America, working through a national network of local community-based organizations, known collectively as the NeighborWorks network. The NeighborWorks network includes more than 235 nonprofit organizations, serving urban, suburban and rural communities across the United States -- in all 50 States, the District of Columbia and the Commonwealth of Puerto Rico.

In FY 2010 alone, the NeighborWorks network generated nearly \$4 billion in direct reinvestment in distressed communities across the nation, and helped more than 270,000 low- and moderate-income families purchase and preserve their homes, or live in safe, decent rental housing. NeighborWorks organizations also own and manage more than 80,000 units of affordable rental housing.

NeighborWorks America has a 30+ year history of facilitating lending to non-conventional borrowers – including lower income families, borrowers with impaired credit and others who would not normally qualify for a conventional mortgage.

By providing quality pre-purchase homeownership education and counseling, financial capability training and working with borrowers to improve their credit rating, improve their budgeting, and commit to a savings plan (including Individual Development Accounts and other vehicles), local NeighborWorks organizations are able to prepare foreclosure-resistant borrowers who have been able to qualify for reasonably priced traditional mortgage loans and achieve sustainable homeownership.

NeighborWorks America also knows that homeowners' odds of success are increased even further when they have access to post-purchase counseling and homeowner education.

NeighborWorks America has been tracking the loan performance of the many low-income families assisted by NeighborWorks organizations over the years. These loans continue to perform well, in comparison to other loans.

NeighborWorks America is also a nationally recognized leader in the fight against foreclosures. The Corporation identified the problem of rising foreclosures over six years ago and, with the encouragement and support of its Board of Directors, created the NeighborWorks Center for Foreclosure Solutions -- an unprecedented partnership between leading nonprofit organizations as well as State, local and federal agencies and members of the mortgage lending and servicing sectors, that involves a comprehensive, multi-faceted approach to the foreclosure crisis.

NeighborWorks America and the National Foreclosure Mitigation Counseling Program

NeighborWorks America also administers the National Foreclosure Mitigation Counseling Program, which has provided congressionally-appropriated funding to HUD-approved housing counseling intermediaries, State housing finance agencies and local NeighborWorks organizations – funding which has supported the work of more than 1,700 sub-grantees, and as of this date had provided foreclosure counseling to more than **1.2 million individuals and families** in all 50 states, Puerto Rico and Guam.

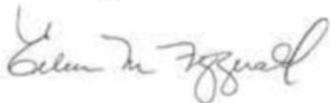
It is from this base of experience that NeighborWorks America provides these comments regarding the Proposed Rule.

Closing Comment:

NeighborWorks America would like to thank the Agencies for their efforts to eliminate abuses within the loan origination and securitization processes, and for their consideration of these comments. The basic elements of the Proposed Rule regarding “Credit Risk Retention” are long overdue, and strongly supported by NeighborWorks America.

Please feel free to contact me, or Steven Tuminaro, Director of Public Policy and Legislative Affairs (at 202-220-2415 or stuminaro@nw.org) for any clarification of these comments.

Sincerely,



Eileen Fitzgerald
Chief Executive Officer