NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

July 29, 2011

Office of the Comptroller of the Currency
Docket Number OCC-2010-0002

Federal Reserve Board
Docket No. R-1411

Federal Deposit Insurance Company
RIN 3064-AD74

Securities and Exchange Commission
File Number S7-14-11

Federal Housing Finance Agency
RIN 2590-AA43

Department of Housing and Urban Development
Docket Number FR–5504–P–01

RE: Credit Risk Retention and Qualified Residential Mortgages

To Whom It May Concern:

The National Community Reinvestment Coalition (NCRC) urges you to significantly alter your proposed Qualified Residential Mortgage (QRM) rule in order to preserve homeownership as a realistic option for moderate- and middle-income Americans who are creditworthy. The National Community Reinvestment Coalition is an association of more than 600 community-based organizations that promotes access to basic banking services, including credit and savings, to create and sustain affordable housing, job development, and vibrant communities for America's working families. NCRC operates a Housing Counseling Network that works with 160 housing counseling agencies around the country. Our Network serves many creditworthy and hardworking clients who would find homeownership less accessible and affordable under your QRM proposal.

When Congress was drafting the Dodd-Frank Wall Street Reform and Consumer Protection Act, lawmakers were concerned that risky subprime and non-traditional loans were issued in large volumes because institutions did not experience financial consequences for high default rates. Hence, Congress imposed a 5 percent risk retention requirement targeting subprime and non-traditional loans, not prudently underwritten loans. Your proposal must follow the lawmakers' intent and focus on subprime and non-traditional loans.

Your proposal will codify a separate and unequal lending system. QRM loans will be the most affordable and would be attained disproportionately by affluent borrowers who can pay the proposed high down payments. Non-QRM loans will be significantly more expensive and will be mostly utilized by low-, moderate-, and middle-income borrowers as well as minorities who lack the savings for high down payments. In addition, many non-QRM borrowers will end up with Federal Housing Administration (FHA) loans, which are more expensive than prime conventional loans and will become more expensive as a result of increasing premiums on FHA loans. In short, the regulators' proposal will create a government-sanctioned dual lending market with affordable QRM loans for the affluent and more expensive FHA and non-QRM loans for moderate- and middle-income borrowers and minorities.

The proposal's narrow QRM will create a significant price differential between QRM loans and non-QRM loans. Mark Zandi estimates that the price difference will range from 60 to 100 basis points between the two buckets of loans.[1] Investors will perceive that QRM loans will have the government seal of approval, meaning that non-QRM loans will be more expensive for financial institutions to securitize and will thus be more expensive for consumers. In addition, the largest financial institutions will be those with the most resources to retain 5 percent of the risk for non-QRM loans. These large institutions would increase their market power since they are the best equipped to retain risk and would use their market power to drive up interest rates for borrowers on non-QRM loans.

The government seal of approval for QRM loans will also likely translate into restrictions for government-guaranteed loans as well as restrictions in the private securitization market. Michael Barr, the former assistant Treasury secretary for financial institutions, and Zandi suggest that the government-sponsored enterprises and any successors to the government-sponsored enterprises will be restricted in using government guarantees only for loans that qualify as QRM.[2] If the GSEs or any successor to the GSEs command a large share of the market, your narrow QRM proposal will further restrict access to credit for modest income Americans.

Experts in securitization markets believe your proposal is too restrictive. Zandi states, "Too narrow a (QRM) definition could meaningfully raise the cost of mortgage credit and reduce its availability for many potential borrowers. The current QRM definition proposed by the regulators is too narrow."[3] Lew Ranieri, the mortgage securitization pioneer, has stated in response to your proposal, "The proposed very narrow QRM definition will allow very few potential homeowners to qualify. I fear it will also delay the establishment of broad investor confidence necessary for the re-establishment of the RMBS market."[4] To further compound Mr. Ranieri's qualms, NCRC fears that when the private securitization market is re-established it will be more concentrated, and less efficient and equitable, contributing to a new dual lending market that has the government seal of approval.

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[1] Mark Zandi and Cristian de Ritis, The Skinny on Skin in the Game, Moody's Analytics, Special Report, March 11, 2011. Also, Zandi and deRitis, Reworking Risk Retention, June 20, 2011.
[2] Joe Adler, "Should QRM Loans be the New Normal," in the *American Banker,* Friday, June 3 and Zandi, op cit, June 20.
[3] Zandi, June 20th paper.
[4] RISMedia, April 8, 2011, "Diverse Groups Respond to Proposed Rule for Qualified Residential Mortgages"

The agencies must start again and focus their QRM proposal on the risky products and practices that caused the crisis, instead of proceeding with a proposal that will have profoundly damaging impacts on the lending marketplace. In addition to adopting our recommendations for down payments, debt-to-income thresholds, and other characteristics for QRMs, we urge you to create a QRM preference for Community Reinvestment Act (CRA) eligible loans since CRA lending has been documented to be safer and sounder than loans not eligible for CRA consideration and loans made by institutions not covered by CRA. In addition, creating a preference for CRA eligible loans will promote reinvestment in traditionally underserved communities instead of creating a new dual lending market that would result from the current proposal.

Product Type

According to FDIC Chairman Sheila Bair, more than half of subprime loans securitized during 2006 and 2007 ended up in default.[5] Problematic adjustable rate mortgages with payment options poorly explained to borrowers also ended up with high default rates impacting middle income communities. It was the risky and abusive features of subprime, adjustable rate, and other nontraditional loans that drove the crisis, not low down payments. The Center for Community Capital at the University of North Carolina found that subprime loans were 70 percent more likely to default than prime loans with low down payments made to borrowers with similar credit histories.[6] Indeed, the Federal Housing Finance Administration (FHFA) concludes that the product type requirements of QRM such as prohibitions against loans not verifying borrower income is the QRM requirement that has the largest impact of reducing delinquencies, particularly during 2005 through 2007 or the years with the most problematic product types.[7]

NCRC, therefore, endorses the product-related restrictions on QRM loans. These prohibitions and limitations include no interest-only payments, no negative amortization, no balloon payments, no prepayment penalties, limits on the increase in interest rates on adjustable rate loans to prevent payment shock, and points and fees no greater than 3 percent of the loan amount. The product-related restrictions will remove the abusive subprime and non-traditional loans from the marketplace that were unsustainable for borrowers and fueled the current crisis.

Down Payment Requirements

In contrast to the high default rates associated with subprime and non-traditional loans, the regulators' analyses reveal that loans qualifying for QRMs with the exception of low down payments (less than 20 percent down) have default rates insignificantly higher than loans that qualify for QRMs and have 20 percent down. The agencies' proposal reveals that for the years

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[5] Chairman Bair's Statement on Credit Risk Retention Notice of Proposed Rulemaking March 29, 2011, available via http://www.fdic.gov/news/news/press/2011/statement03292011.html, last accessed on June 7, 2011.

[6] *Risky Borrowers or Risky Mortgages: Disaggregating Effects Using Propensity Score Models* by Lei Ding, Roberto Quercia, Wei Li, and Janneke Ratcliffe, Center for Community Capital, University of North Carolina – September 2008

[7] Federal Housing Finance Administration, Mortgage Market Note 11-02, Qualified Residential Mortgages, March 31, 2011.

1997 through 2009 serious delinquency rates for loans that are QRM except for a variance from the down payment requirement are one percentage point higher than loans that meet all the requirements for QRM. In contrast, loans that are QRM except for a variance from product type restrictions have delinquency rates that are three percentage points higher than loans that meet all the requirements for QRMs.[8]

While default rates are modestly higher, low down payment loans are not the culprit of the crisis. Zandi states that "While there is no question that larger down payments correlate with better loan performance, low down payment mortgages that are well underwritten have historically experienced manageable default rates, even under significant economic or market stress."[9] Clearly, default rates on low down payment loans pale in comparison to the 50 percent default rates on subprime and other non-traditional loans. Moreover, an analysis by Corelogic Inc. reveals that migrating from a 5 percent to a 10 percent down payment requirement for loans that otherwise meet QRM requirements reduces the market-wide default experience by an average of only two- or three-tenths of one percent for each year.[10] This startling conclusion illustrates that the proposal's alternative down payment requirement of 10 percent remains unnecessarily high.

Most Americans that are not well heeled will have considerable difficulty coming up with 20 percent down payments even for homes that are moderately priced. Zandi documents that about half of all loans originated in 2010 had down payments of less than 20 percent and that most of these loans had down payments less than 10 percent.[11] For minorities and first time homebuyers of all races, the situation could be especially bleak. According to the Census Bureau, African-Americans had a median net worth of about $8,600 in the mid-2000s, which is clearly not enough to generate a 20 percent down payment on a modestly priced home of $100,000.[12] Moreover, according to Harvard University's calculations of the Federal Reserve's Survey of Consumer Finances, the median white renter had cash savings of about $1,000 and the median minority renter about one-quarter that amount in 2007.[13] Not surprisingly, the National Association of Realtors estimates that in 2010, 96 percent of first-time home buyers made down payments less than 20 percent.[14]

Using median renter income and median home prices, calculations by the Center for Responsible Lending and the Mortgage Bankers Association reveal that a 20 percent down payment requirement will require 20 years of savings for renters in Birmingham, Alabama, 23 years in

[8] Federal Register, Vol. 76, No. 83, Friday, April 29, 2011, Proposed Rules, Appendix A table on p. 24141.
[9] Zandi and de Ritis, op. cit, p. 3.
[10] Vertical Capital Solutions of New York, an independent valuation and advisory firm, conducted this analysis using loan performance data maintained by First American CoreLogic, Inc. on over 30 million mortgages originated between 2002 and 2008
[11] Zandi and de Ritis, op. cit, p. 4.
[12] U.S. Census Bureau, Housing and Household Economic Statistics Division, Table 1 - Median Value of Assets for Households, by Type of Asset Owned and Selected Characteristics:, http://www.census.gov/hhes/www/wealth/2004/wlth04-1.html
[13] The data on cash savings was cited in Ellen Seidman, *Qualifying for a Piece of the American Dream: Home Mortgage Deposit Risk-Retention Rules Must Embrace Broad Homeownership Goals*, April 2011, Center for American Progress.
[14] New York Times, Advocates and Bankers Join to Fight Loan Rules, June 2, 2010.

Seattle, and 14 years, on average, nationally.[15] A 10 percent down payment requirement is similarly daunting, requiring 10 years of savings in Birmingham and 11 years in Seattle. In contrast a five percent down payment requirement would require 5 years of savings in Birmingham and 6 years in Seattle.

The agencies' own data analysis showing insignificant differences in loan performance among loans with high and low down payments together with the analysis of the chilling impact on home buying of high down payment requirements necessitates an abandonment of the regulators' proposal. NCRC believes that down payment requirements should be scrapped altogether. If the regulators choose to proceed with the down payment requirements for QRM loans, then the requirements should be in the range of 3 to 5 percent, which would not require more than a decade of savings for the average renter and would therefore not chill the housing market by nearly the same extent as the regulators' proposal. Furthermore down payment assistance programs operated by public agencies or private sector entities should be allowed as eligible sources of funding towards a 3 to 5 percent down payment requirement.

A preference for CRA-eligible loans should be developed that ties the lowest down payment requirements for QRM loans to CRA-eligible loans. A down payment of 3 percent should be allowed for QRM and CRA eligible loans while a higher down payment of 5 percent would be allowed for QRM and non-eligible CRA loans. Closing costs should be counted towards the down payment requirement for CRA eligible loans.

CRA-eligible loans would be defined as loans to low- and moderate-income borrowers and/or loans to low- and moderate-income communities in a bank's assessment area (geographical areas on a bank's CRA exam). NCRC further suggests that the product-related restrictions in QRMs described above such as no negative amortization loans should also apply to CRA-eligible loans that would be favored by our recommendation.

Research conducted by the Federal Reserve Board and other agencies involved in the QRM rulemaking has shown that CRA-eligible loans are safer and sounder than loans that are not CRA-eligible, including loans made by non-CRA covered institutions.[16] In order to encourage safe and sound lending, a QRM rule should provide a preference for CRA eligible loans. Prime, responsibly underwritten, and low down payment loans have been a feature of CRA lending for several years. This lending is not only safe and sound but is most accessible and affordable to segments of low- and moderate-income borrowers. Thus, a further relaxation of down payment

[15]For the CRL estimate on the national level, see, *Proposed QRM Harms Creditworthy Borrowers While Frustrating Housing Recovery*, a white paper authored by several industry trade associations and community organizations, June 2011. For the city estimates, see the calculations by the Mortgage Bankers Association (MBA) in *Impact of the Risk Retention Rules on the Mortgage Market – Presentation Materials*, published by MBA, CRL, CFA, NCRC, and NHC.

[16] Elizabeth Laderman and Carolina Reid, Federal Reserve Bank of San Francisco, *CRA Lending during the Subprime Meltdown* in Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act," a Joint Publication of the Federal Reserve Banks of Boston and San Francisco, February 2009, http://www.frbsf.org/publications/community/cra/cra_lending_during_subprime_meltdown.pdf. Also, in the same publication, see Randall Kroszner, former Federal Reserve Governor and currently at Booth School of Business, University of Chicago, *The Community Reinvestment Act and the Recent Mortgage Crisis.*

requirements for CRA-eligible loans will promote responsible lending in low- and moderate-income communities and will counteract the constriction of credit currently experienced in these communities.

Another benefit of creating a QRM preference for CRA-eligible loans is that banks would be encouraged to increase their assessment areas considered on CRA exams since QRM loans will be the loans most attractive to the secondary markets. CRA thus becomes strengthened through the agencies' QRM rule.

Debt-to Income Ratios

An equaling troubling aspect of the QRM proposal is the ratios regarding housing payment-to-income (PTI) and debt-to-income (DTI). The agencies propose that loans would qualify for QRMs only if their PTI and DTI ratios are 28 and 36 percent, respectively. While high PTI and DIT ratios are problematic, the proposal is an over-reaction to the foreclosure crisis. Loans backed by the Federal Housing Administration (FHA) exhibit considerably lower default rates than subprime loans, and FHA loans have DTI ratio limits that can go up to 41 percent.[17]

The debt-to-income ratio limits will disqualify a large number of borrowers from QRM loans. CoreLogic estimates that three out of every five borrowers who purchased homes last year would not have met the proposed restriction on total debt.[18] In addition, the FHFA's data analysis shows that PTI and DTI limits disqualify more loans from QRM status than even the down payment requirement. Moreover, the FHFA analysis shows that loosening the PTI and DTI requirement significantly increases loans that qualify as QRMs while not significantly increasing default rates of QRM loans. For example, in 2009, when relaxing PTI and DTI requirements, QRM loan volume increases almost 25 percent while delinquency rates barely increases by .1 percent according to the FHFA's analysis.[19]

NCRC believes that the agencies must revise their debt-to-income restrictions and possibly adopt the FHA's 41 percent back-end ratio limit.[20] It must be noted that the Federal Reserve Board, in their qualified mortgage (QM) proposal, did not adopt specific DTI thresholds though the Dodd-Frank Act allowed them to do so. Instead, the Federal Reserve Board determined that requiring consideration of debt-to-income in underwriting was more important than any specific ratio. NCRC encourages the agencies to further consider the impacts of a specific DTI requirement and a lack of one on QRM loan volume and delinquency rates. After such an analysis, the agencies may conclude that the Federal Reserve's QM approach is the most reasonable in terms of promoting increased volumes of safe and sound lending.

[17] See OCC and OTS Mortgage Metrics Report for 4th Quarter 2010 for the differences in the performance of FHA and subprime loan defaults, available via http://www.occ.gov/publications/publications-by-type/other-publications/mortgage-metrics-q4-2010/mortgage-metrics-q4-2010.pdf.
[18] Dina El Boghdady, *Federal proposal would toughen debt restrictions on mortgages,* Washington Post, June 8th
[19] Federal Housing Finance Administration, Mortgage Market Note, op cit., p. 15.
[20] NCRC's recommendations concerning down payment and debt-to-income are quite similar to Zandi's in his June 20th paper. Zandi recommends allowing loans at 95 percent LTV and/or back-end debt-to-income ratios up to 40 percent qualifying as QRM.

In addition, the agencies do not propose any analysis of residual income, or the income left over after debts are paid. It is important to determine if residual income is high enough for the borrower to afford basic necessities after debts are paid. For a loan to qualify as a QRM, the agencies should require institutions to certify that they have conducted residual income analysis.

Second Liens

Related to debt-to-income ratio thresholds are second lien restrictions for QRM loans. The agencies propose stringent loan-to-value (LTV) and second lien restrictions. While the agencies are correct that piggyback lending was abused in the boom years leading up to the crisis, second lien restrictions should be revisited since borrower difficulty in repaying loans was probably more related to excessive debt-to-income burdens and less to the presence of a second lien. Our recommendation regarding robust debt-to-income and residual income analysis combined with prudent limits on second liens would eliminate problematic and poor performance loans from QRMs.

Second liens should not be permitted for QRM home purchase and refinance loans when thresholds for combined loan-to-value (CLTV) ratios are exceeded. The agencies' own data analysis and NCRC's analysis below suggest that LTV and CLTV limits can be relaxed without significant increases in delinquencies. Therefore, NCRC suggests that the agencies establish CLTV thresholds at 95 to 97 percent. For cash-out refinances, which have experienced higher default rates than rate- and term-refinances, the CLTV thresholds should be lower by five percentage points, or 90 to 92 percent.

A significant issue with second liens is that the down payment assistance programs described above often structure the down payment assistance as a second lien. The second lien is often a soft second that is a zero interest rate loan and which is forgiven after a certain number of years. Access to down payment assistance programs must not be curtailed by restrictive second lien restrictions in a QRM rule.

Piggyback lending and home equity lines of credit (HELOCs) were abused during the boom years of subprime and non-traditional lending. These loans were made without assessing the borrower's ability to repay and included CLTVs above 100 percent. If the agencies establish CLTV limits and require an ability-to-repay analysis, including a residual income analysis, second liens can be offered in a safe and sound manner and help borrowers who cannot afford large down payments buy homes or refinance into lower interest rates.

Creditworthiness

The agencies propose a restrictive requirement that a borrower cannot be 60 days or more past due on any debt in the previous two years. In justifying this requirement, the agencies note that credit scores can be driven down substantially even by delinquent payments on non-mortgage debt. However, non-mortgage debt includes a large category of payments including paying the cable bill and other non-essential services. The agencies must further study this restriction and develop reasonable exclusions for certain non-mortgage payments. In the worst recession since the Great Depression, an unduly restrictive rule regarding late payments will disqualify conscientious borrowers who were staying current on their mortgage and other essential debt items such as utility payments but who had to skip the cable or other non-essential debt payments even once in a two year time period. Further, if credit score methodologies, cannot distinguish among the default predictive abilities of certain types of non-mortgage debt, the agencies must think long and hard before establishing a QRM rule on such credit scores.

In their data analysis, the agencies use a proxy of a 690 FICO score to represent their proposed creditworthiness standard. NCRC's data analysis discussed below finds that allowing FICO scores of 620 to qualify as QRM creditworthiness standards does not significantly increase foreclosure rates. The agencies should revise their creditworthiness standard to accommodate borrowers with scores of 620.

Servicing

The proposal requires institutions to engage in unspecified loss mitigation actions when a borrower is 90 days late and when a net present value analysis indicates that the net present value of loss mitigation exceeds the value of recovery through foreclosure. The proposal is too weak and does not contain enough specific requirements. The agencies state that they are developing national servicing standards and will propose such standards later in the year. These national standards must be incorporated in QRMs.

Why would the same agencies propose standards for QRMs that are weaker and less complete than any national servicing standards since QRMs are suppose to be safe and sound loans and proper servicing standards critically affect the performance and soundness of loans. The national servicing standards must address issues such as establishing good faith requirements concerning loss mitigation and loan modifications before an institution is allowed to foreclosure, creating standards of customer care including a right to appeal a denied modification request, and the creation of compensation systems that encourage modification over foreclosures.

Counseling

Since Dodd-Frank requires the agencies to consider factors that increase defaults in defining a QRM, it would follow that factors that reduce defaults should be incorporated into QRMs. Studies have demonstrated that counseling has been effective in reducing delinquencies since counselors ensure that borrowers understand their loans and that they can afford to repay their loans.[21] Therefore, if a HUD-certified counselor confirms in writing that he or she counseled a borrower and that the borrower can afford to repay the loan, then the counselor's written

[21] For an example of the benefits of counseling see, Charles A. Calhoun, Neil S. Mayer, Peter A. Tatian, Kenneth Temkin, *Preliminary Analysis of National Foreclosure Mitigation Counseling Program Effects,* September, 2010, Urban Institute, available via http://www.urban.org/publications/412276.html

affirmation should be an accepted verification procedure qualifying the loan as a QRM. A variance on one of the QRM limitations regarding LTV or DTI should be allowed in the case of counseling. Even when counseling occurs, however, there should not be a variance on QRM prohibitions against certain product features such as negative amortization.

Fair Lending Impact

Prime conventional lending has plummeted for all borrowers but particularly for minorities during the last several years. NCRC Home Mortgage Disclosure Act (HMDA) data analysis reveals a decline of 67 percent for whites and 85 percent for African-Americans and Hispanics in prime conventional home purchase lending from 2005 to 2009. The disparate impact of the financial crisis on minorities can be further demonstrated by analyzing refinance lending trends. For example, prime conventional refinance lending increased by 18 percent for white, non-Hispanic borrowers from 2005 to 2009. In stark contrast, this lending plummeted for African-Americans by 66 percent and for Hispanics by 70 percent during this time period. Since interest rates were at historic lows starting around 2009 and extending through 2011, it would seem that policymakers would seek to promote responsible, affordable refinance and home purchase lending to traditionally underserved populations. Ironically, the QRM proposal will further decrease lending underserved populations, depriving them of opportunities to purchase homes or to refinance out of problematic loans made during the housing bubble.

To assess the fair lending impacts of the QRM proposal, NCRC used data from Lender Processing Services (LPS) to calculate the percentage of loans originated in 2006 and 2007 that would qualify as QRM loans (Table 7 in the Appendix shows the specifications used in the data analysis).[22] In 2006, Table 1 in the Appendix and Chart 1 below reveal that only 3.5 percent of the loans in the LPS sample qualified for QRM in Hispanic neighborhoods and only 3.9 percent of the loans qualified as QRM loans in African-American neighborhoods (a neighborhood is classified Hispanic and African-American when more than 50 percent of the residents are of that ethnicity or race).[23] In contrast, 7 percent of the loans in the LPS sample are QRM qualified loans in white neighborhoods (more than 80 percent of the residents are white). In 2007, the racial and ethnic disparities remain with just over 3 percent of the loans in Hispanic and African-American neighborhoods qualifying at QRM and 6.4 percent qualifying as QRM in white neighborhoods according to Table 4 and Chart 3. NCRC's analysis also shows a similar disparity

[22] NCRC used Lender Processing Services (LPS) data for this analysis of the impact of the proposed QRM rule. The LPS data is compiled from mortgage servicing firms that collect mortgage payments for U.S. investors and lenders. As of December 2008, a total of sixteen firms, including nine of the top ten servicers, provided data to LPS. The data set provides information about all outstanding liens in a particular month between 2000 and 2008. A loan stays in the LPS data set until it completes a real-estate-owned (REO) process or is repaid. The data provides information about the terms of the loan at origination, property value, borrower credit score, and the loan's performance over time—information that is not available in the HMDA data set. Unlike HMDA data, however, LPS does not have borrower demographic information but does have the zip codes for the loans. We were able to determine the minority composition of the zip codes for the analysis below. Finally, Table 8 below compares LPS and HMDA data coverage.

[23] The smallest geographical unit in the LPS dataset is a zip code. Zip codes are considered neighborhoods in this paper.

by race and ethnicity of neighborhood when examining home purchase, rate- and term-refinance lending, and cash-out refinance lending (see Tables 9 through 26).

The disparities diminish but remain even when relaxing the QRM requirements. NCRC tested four alternative QRM definitions. As show in the legend below and Table 7, 10% DP is the regulator's proposed alternative, requiring 10 percent down payment for home purchase loans, 10 percent for rate- and term-refinance loans, and 25 percent down for cash-out refinance lending. In addition, the front-end ratio is relaxed and raised to 33 percent of monthly income. 5% DP allows a down payment of 5 percent for all the home purchase and refinance loans while 3% DP allows a down payment of 3 percent. Finally, "620" allows a down payment of 3 percent and lowers the FICO score from 690 (used by the regulators) to 620 (620 to 660 most likely includes the upper range of subprime borrowers or A- subprime borrowers as well as FHA borrowers).

Legend for the tables:[24]

LPS Sample: Owner occupied single family loans for home purchase and refinance from LPS datasets
QRM: Subset of LPS Sample satisfying proposed QRM requirements
10% Down Payment (DP): Subset of LPS Sample satisfying regulators' proposed alternative QRM requirements including 90% LTV for purchase
5% Down Payment (DP): Subset of LPS Sample satisfying proposed QRM requirements except for LTV and DTI. LTV for purchase, rate/term refinance, and cash-out refinance <=95% and front end DTI<=33%
3% Down Payment (DP): Subset of LPS Sample satisfying QRM proposal except for LTV and DTI. LTV for purchase, rate/term refinance, and cash-out refinance <=97% and front end DTI<=33%
620: Subset of LPS Sample satisfying QRM proposal except for LTV, DTI, and credit score. LTV for purchase, rate/term refinance, and cash-out refinance <=97%, front end DTI<=33%, and credit score>=620

The 10% DP and 5% and 3% DP approximately double the number of loans that qualify as QRM for African-American, Hispanic, and white neighborhoods. These alternatives qualify more borrowers for QRM loans but do not appreciably lessen the racial or ethnic disparities. For example, in 2006 under 10% DP, about 6 percent of the loans and 6.5 percent of the loans in Hispanic and African-American neighborhoods, respectively, qualify as QRM loans while 11.2

[24] For details please look Table 7 in page 21 of this report.

percent of the loans in white neighborhoods qualify as QRM loans (see Table 1). In contrast, under "620", eleven percent and 15 percent of the loans in Hispanic and African-American neighborhoods, respectively, qualify as QRM while 17.6 percent of the loans in white neighborhoods qualify as QRM.

As shown in Table 2, under the original QRM proposal, the percentage of loans qualifying as QRM loans in Hispanic and African-American neighborhoods was about half the percentage of loans qualifying as QRM loans in white neighborhoods during 2006. In contrast, under "620", the portion of loans qualifying as QRM in Hispanic neighborhoods was about 62 percent of the portion of loans in white neighborhoods. In African-American neighborhoods, the portion of loans qualifying as QRM loans grew to about 86 percent of the portion of loans in White neighborhoods. While not eliminating racial and ethnic disparities, "620" narrows the disparities to the greatest extent.

Like 2006, the data for 2007 reveal that the percentage of loans qualifying as QRM increases in the alternative QRM definitions and is the greatest for "620". The percentage of loans in the LPS sample qualifying as QRM was about 3.2 percent and 3.1 percent in Hispanic and African-American neighborhoods, respectively. In contrast, 6.4 percent of the loans in white neighborhoods qualified as QRM loans. Under "620", 10.1 percent, 13 percent, and 17 percent of the loans in African-American, Hispanic, and white neighborhoods, respectively, qualified as QRM loans (see Table 4). Furthermore, racial and ethnic disparities were narrowed by the greatest extent under "620". For example, when using the regulators' QRM definition, the portion of loans in African-American neighborhoods that were QRM was about half that of white neighborhoods. Under "620", the portion of loans in African-American neighborhoods that qualified as QRM was 77 percent of the portion of loans in white neighborhoods (see Table 5).

The NCRC analysis also reveals that foreclosure rates decrease significantly when comparing all loans within the LPS sample to the QRM loans and each of the three other alternatives.[25] Importantly, foreclosure rates are not significantly different among QRM and each of the other alternatives. In 2006, the entire LPS loan sample exhibited a foreclosure rate of 2.3 percent which decreases to .14 percent under the proposed regulatory definition of QRM. The rate increases modestly to .19 percent, .26 percent, .26 percent, and .52 percent under 10% DP, 5% DP, 3% DP, and "620," respectively. For Hispanic neighborhoods, the rate was 4.6 percent in the LPS sample, .2 percent under the proposed QRM definition, .38 percent under 10% DP, and .79 percent under "620" (see Table 3 and Chart 2).

[25] Loans in foreclosure process ('presale' or 'post-sale') or is already a real estate owned (REO) property are considered to be in foreclosure. NCRC analyzed loans originated in 2007 and 2006 separately and looked at their performance through 2008.

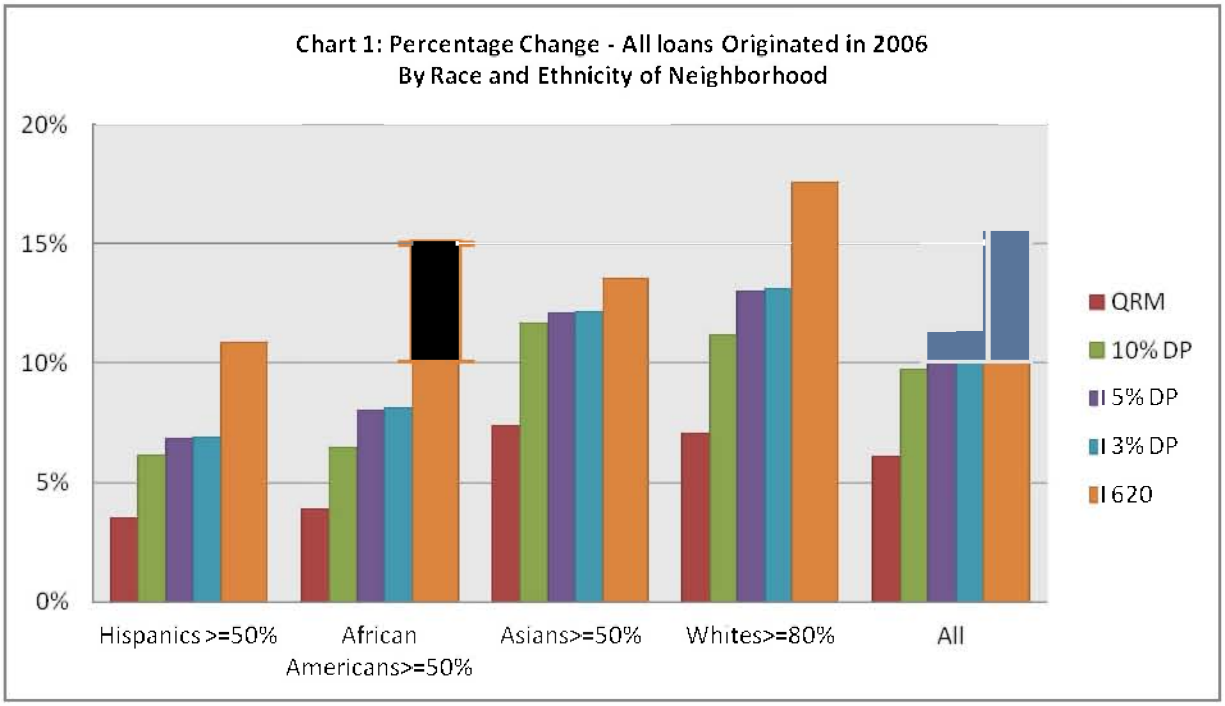

Chart 1: Percentage Change - All loans Originated in 2006
By Race and Ethnicity of Neighborhood

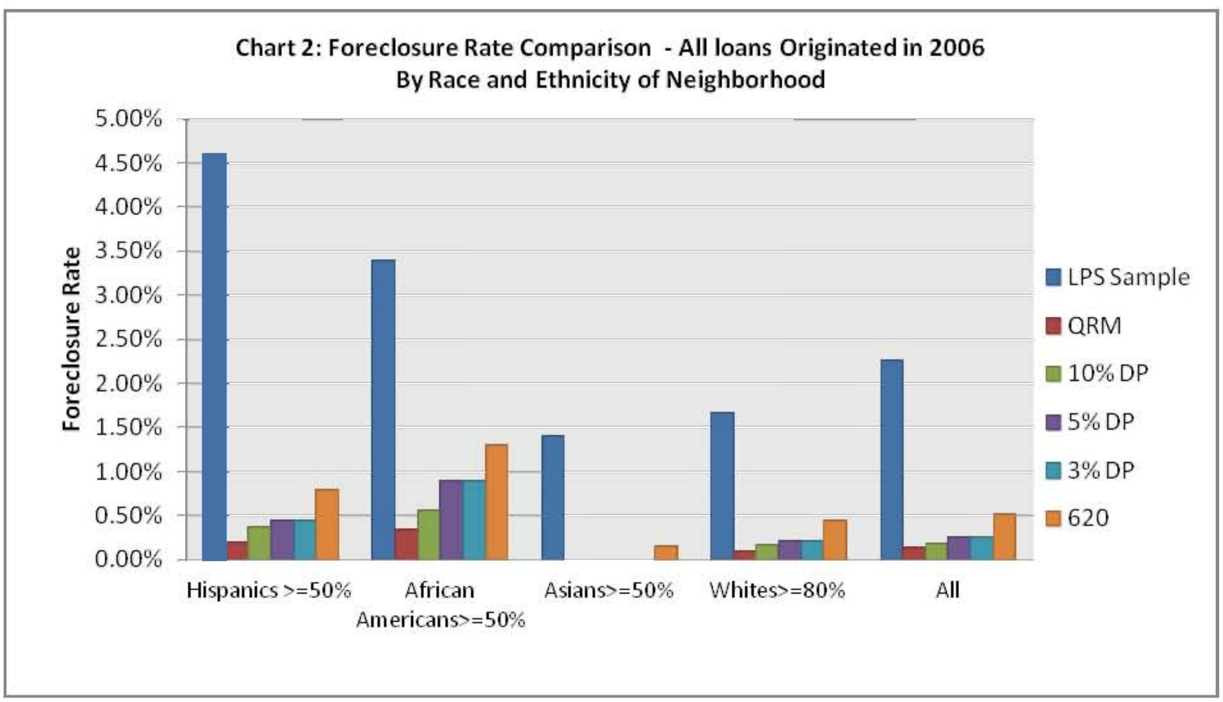

Chart 2: Foreclosure Rate Comparison - All loans Originated in 2006
By Race and Ethnicity of Neighborhood

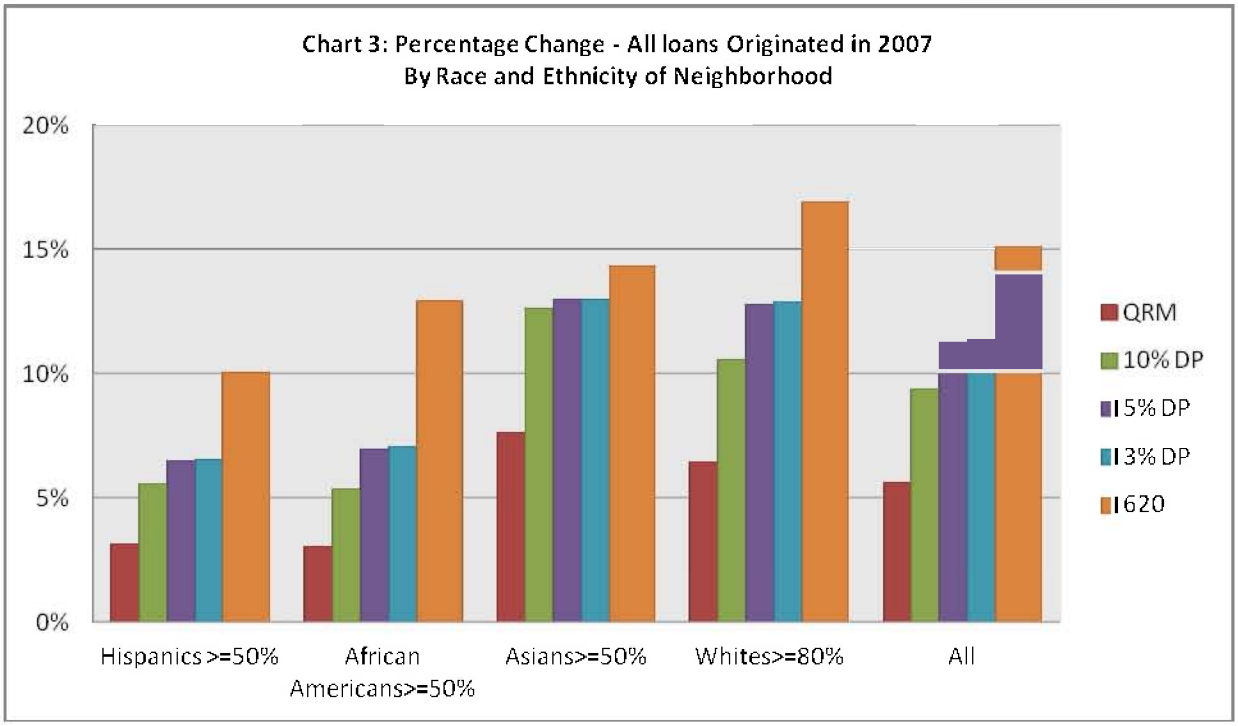
Chart 3: Percentage Change - All loans Originated in 2007
By Race and Ethnicity of Neighborhood
20%
15%
10%
5%
0%
Hispanics >=50%
African Americans>=50%
Asians>=50%
Whites>=80%
All
QRM
10% DP
5% DP
3% DP
620

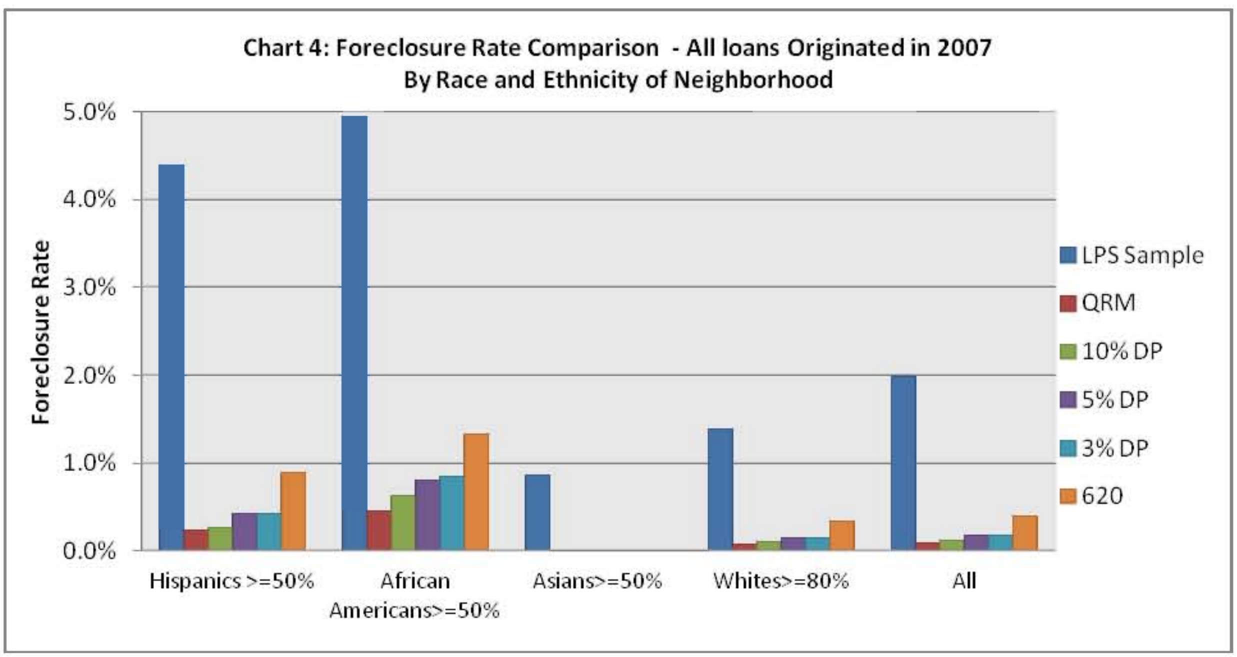
Chart 4: Foreclosure Rate Comparison - All loans Originated in 2007
By Race and Ethnicity of Neighborhood
Foreclosure Rate
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
Hispanics >=50%
African Americans>=50%
Asians>=50%
Whites>=80%
All
LPS Sample
QRM
10% DP
5% DP
3% DP
620

In 2007, the foreclosure rates are likewise substantially lower in QRM and any of the QRM alternatives than in the LPS loan sample. For example, in African-American neighborhoods, the foreclosure rate declines from about 5 percent in the LPS sample to .63 percent for the 10% DP loans to 1.3 percent for "620" loans. For Hispanic neighborhoods, the foreclosure rates are 4.4 percent in the full LPS sample, .27 percent for 10% DP loans, and .89 percent for "620" loans. For all neighborhoods, the foreclosure rate declines from 2 percent for the LPS full sample loans to .4 percent for "620"loans (see Table 6 and Chart 4).

The foreclosure rate differences do not appear to justify the restrictive QRM definition. Under the Equal Credit Opportunity Act and the Fair Housing Act, a policy that produces a disparate impact by race, ethnicity, gender or other protected classes needs to be justified by business necessity, or it constitutes a violation. In this case, the LPS data suggests that while foreclosure rates are modestly higher under the alternatives to QRM, they are still manageable. NCRC's analysis selected the years of 2006 and 2007, which were peak years of the crisis and which therefore exhibited elevated foreclosure rates. Since the alternative QRM definitions significantly reduced foreclosure rates even during the worst years of underwriting, NCRC's analysis suggests that the agencies have considerable room to make the QRM definition less restrictive. Finally, this analysis does not imply that NCRC favors "620", which still appears to exclude too many loans, but indicates that QRM standards can be considerably less restrictive.

Qualified Mortgages and their Relationships to QRMs

In addition to inconsistencies with the fair lending laws, the QRM proposal is also inconsistent with the statutory language of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Section 941 establishing QRMs states that QRMs are to be no broader than the Qualified Mortgage (QM) established by Title 14 of Dodd-Frank.[26] A mortgage that complies with the QM standard is assumed to be in compliance with the ability-to-repay requirement of the Truth in Lending Act as amended by Dodd Frank. The features of a QM include thirty year terms, full documentation of borrower income, prohibitions against negative amortization, interest-only payments, and balloon payments. The QM does not have any restrictions on down payments or creditworthiness. Likewise, the statutory factors of the QRM provision emphasize prohibitions against risky product features and do not mention down payments or loan-to-value ratios.[27] Lawmakers were intent on discouraging risky subprime and non-traditional lending and thus were striving to provide advantages to well-underwritten, prime loans, including those to modest income people who did not have savings for high down payments.

[26] Section 941 states that the federal agencies "in defining the term 'qualified residential mortgage'…shall define that term to be no broader than the definition of 'qualified mortgage' as the term is defined under section 129(c)(2) of the Truth in Lending Act, as amended by the Consumer Financial Protection Act of 2010, and the regulations adopted thereunder."

[27] Section 941 lists factors and product features for defining QRM to include documentation of financial resources of the borrower, residual income, ratio of monthly housing payments to income, mitigating payment shock on adjustable rate mortgages, mortgage guarantee insurance, and prohibiting or restricting balloon payments, negative amortization and other features that exhibit higher risk of borrower default. This list of factors does not explicitly include down payments or loan-to-value ratios.

Senators Isakson, Hagan, and Landrieu believe that the agencies have violated the statutory intent of Dodd-Frank with their restrictive QRM proposal. They state in a recent opinion piece that "More than a year ago, we worked together in a bipartisan effort to promote a sensible mortgage standard that would encourage sound underwriting and responsible lending. But federal banking regulators last month proposed a 20 percent down payment requirement on QRMs. Regulators went for rigidity, rather than a balanced, flexible approach. The 20 percent down payment requirement leaves millions of qualified potential homeowners with two grim alternatives: pay higher rates upfront for a mortgage that falls outside the regulators' proposed QRM standard or delay homeownership for a decade or more to save for an onerous down payment. We cannot price millions of middle-class American families out of the housing market for an arbitrary and inconsequential default rate decrease. It is time for the regulators to go back to the drafting table."[28]

Moreover, more than 40 Senators recently sent a letter to the regulators to the same effect. Their May 26 letter states "The proposed regulation goes beyond the intent and language of the statute by imposing unnecessarily tight down payment restrictions. These restrictions unduly narrow the QRM definition and would necessarily increase consumer costs and reduce access to affordable credit."[29] Likewise a letter sent by 156 members of the House of Representatives notes that even in 2009, after underwriting standards had tightened up, more than half the home purchase loans had down payments of less than 20 percent.[30]

Economic Wide Impact

The agencies have also not assessed the economic-wide impact of their proposed narrow QRM standard. Experts state that since home equity loses total in the trillions of dollars, homeowners seeking to refinance will have difficulties meeting the 20 percent or 10 percent down payment requirements of the proposed QRM. Reacting to the equity loss and the QRM proposal, Christopher Hebert, research director at the Joint Center for Housing Studies at Harvard University states, "If we exacerbate that (equity loss) by having credit restricted, and the private sector is wary about jumping in, and house prices continue to fall, more homeowners are underwater, putting more pressure on bank balance sheets, it really could tip the scales in a way that would be very dangerous."[31] It makes little sense for the agencies to proceed with a proposal that is not an effective approach for promoting safe and sound lending and that poses profound dangers for recovering from the worst recession since the Great Depression.

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[28] Their opinion piece appeared in Politico on May 12, 2011, http://www.politico.com/news/stories/0511/54745.html
[29] "Senators Urge Regulators to Ease Proposed Risk Retention Rules," American Banker , Tuesday, May 31, 2011
[30] New York Times, "Advocates and Bankers Join to Fight Loan Rules," June 2, 2010.
[31] Associated Press, *Americans' Equity in Their Homes Near a Record Low,* June 9th, and John W. Schoen, *Proposed rules could shut many out of housing market: Bankers, community advocates protest tough down payment requirements* , http://www.msnbc.msn.com/id/43316132/ns/business-eye_on_the_economy/msnbc.com

Conclusion

The regulatory agencies assert that many mortgages will continue to be made that are not QRMs and that price differences between QRMs and non-QRMs will be small. They state that institutions will either hold these loans in portfolio or retain 5 percent of the risk when they sell the loans. Yet, the agencies make these statements without presenting corroborating evidence. In fact, it is not possible to back up these assertions with evidence since nothing like QRM standards have not been enacted in the history of United States bank regulation.

Lacking historical experience with QRM standards, it would seem that the prudent course of action would be to heed the advice of securitization pioneers and practitioners like Ranieri who warn of dire consequences. These experts maintain that QRMs could very well set the standard for the entire market meaning non-QRM loans will either not be available or will be much more costly. In real terms, this could mean significantly less credit or much more expensive credit for broad swaths of Americans. The present QRM proposal will not only shut out large numbers of modest and middle-income families from homeownership but could also thwart the shaky economic recovery that is currently being held back by difficulties in the lending and real estate industries.

The agencies are exactly backwards in their proposal. Your narrow QRM proposal translates into 10 to 20 percent of the mortgages qualifying as QRM and 80 to 90 percent of the mortgages not being QRM in any given year. Zandi suggests the percentages should be reversed with at least two thirds of the loans qualifying as QRM.[32] This suggestion is consistent with NCRC's recommendation that non-QRMs be confined to the riskiest loans, which were about 20 to 25 percent of the market in the heyday of subprime and non-traditional lending.

Section 941 of Dodd-Frank states that the QRM standard shall "improve the access of consumers and businesses to credit on reasonable terms or otherwise be in the public interest." On both these counts QRM proposal fails. We urge the agencies to confine non-QRM loans to the risky subprime and non-traditional loans that caused the crisis. The final QRM rule should also create a preference for CRA-eligible loans and loans involving housing counseling that would further encourage safe and sound lending in low- and moderate-income communities. This approach is consistent with the QM language in Dodd-Frank and would effectively address the causes of the crisis without choking off access to credit, halting the economic recovery, or the government sanctioning a new redlining for the 21st century.

The Federal Reserve Board, the Bureau of Consumer Financial Protection, and the other regulatory agencies involved in the QRM proposal must coordinate the qualified mortgage (QM) and QRM rules. The QM and QRM rules must provide robust protections against abusive lending without choking off access to responsible credit. Accordingly, we ask the agencies to focus on restricting abusive practices that contributed to the crisis such as no documentation lending and to refrain from instituting onerous down payment requirements or unduly restrictive debt-to-income ratios. The QRM rules should not be finalized before the QM rules. In fact, when

[32] Zandi, op cit, June 20th paper.

the CFPB issues its QM proposal, the agencies working on QRM should ask for comments on a revised QRM proposal that harmonizes the QRM rule with the QM rule.

Thank you for your consideration in this important matter. If you have any questions, please feel free to contact me or Josh Silver, Vice President of Research and Policy on 202-628-8866.

Sincerely,

John Taylor
President and CEO

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Appendix

HMDA Table 1. Percent Change Analysis- Single family conventional loans for home purchase, 2009 and 2005									
By Race of Borrowers									
	Count of Loans (2009)			Count of Loans (2005)			Percent Change in Loans (2009-2005)		
	Prime	High-Cost	All	Prime	High-Cost	All	Prime	High-Cost	All
Borrower Race									
White	801,684	39,638	841,322	2,609,673	698,722	3308395	-69%	-94%	-75%
White, Non Hispanic	739,626	34,050	773,676	2,256,822	459,400	2716222	-67%	-93%	-72%
Black or African American	22,365	2,016	24,381	145,555	171,713	317268	-85%	-99%	-92%
Hispanic or Latino	46,444	5,178	51,622	302,942	246,293	549235	-85%	-98%	-91%
Asian	92,298	1,746	94,044	199,678	39,689	239367	-54%	-96%	-61%
Total	1,035,866	46,383	1,082,249	3,337,158	1,083,073	4420231	-69%	-96%	-76%

HMDA Table 2. Percent Change Analysis- Single family conventional loans for Refinancing, 2009 and 2005									
By Race of Borrowers									
	Count of Loans (2009)			Count of Loans (2005)			Percent Change in Loans (2009-2005)		
	Prime	High-Cost	All	Prime	High-Cost	All	Prime	High-Cost	All
Borrower Race									
White	3,335,136	105,083	3,440,219	3,123,109	901,200	4024309	7%	-88%	-15%
White, Non Hispanic	3,146,281	96,165	3,242,446	2,676,510	705,200	3381710	18%	-86%	-4%
Black or African American	76,347	8,034	84,381	227,171	218,177	445348	-66%	-96%	-81%
Hispanic or Latino	116,885	7,965	124,850	391,065	192,306	583371	-70%	-96%	-79%
Asian	200,896	1,367	202,263	140,887	25,199	166086	43%	-95%	22%
Total	4,123,836	124,050	4,247,886	4,115,188	1,422,524	5537712	0.2%	-91%	-23%

Table 1: *Percentage Change - All loans Originated in 2006 By Race and Ethnicity of Neighborhood*											
Race/Ethnicity of Neighborhood	LPS Sample	QRM		10% DP		5% DP		3% DP		620	
		Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample
Hispanics >=50%	43,138	1,511	3.50%	2,652	6.15%	2,968	6.88%	2,982	6.91%	4,703	10.90%
African Americans>=50%	30,196	1,183	3.92%	1,960	6.49%	2,431	8.05%	2,460	8.15%	4,548	15.06%
Asians>=50%	4,489	331	7.37%	524	11.67%	545	12.14%	546	12.16%	610	13.59%
Whites>=80%	451,894	31,977	7.08%	50,616	11.20%	58,979	13.05%	59,488	13.16%	79,428	17.58%
All	891,922	54,377	6.10%	87,054	9.76%	100,291	11.24%	101,020	11.33%	138,192	15.49%

Table 2: *Racial Disparity Ratio of Percentage of QRM & Alternative QRM Loans – All loans Originated in 2006 (Ratio of that Race/Ethnicity of Neighborhood by to Whites>=80%)*					
Race/Ethnicity of Neighborhood	QRM	10% DP	5% DP	3% DP	620
Hispanics >=50%	0.49	0.55	0.53	0.53	0.62
African Americans>=50%	0.55	0.58	0.62	0.62	0.86
Asians>=50%	1.04	1.04	0.93	0.92	0.77
Whites>=80%	1.00	1.00	1.00	1.00	1.00
All	0.86	0.87	0.86	0.86	0.88

Table 3: *Foreclosure Rate Comparison - All loans Originated in 2006 By Race and Ethnicity of Neighborhood*						
Race/Ethnicity of Neighborhood	LPS Sample	QRM	10% DP	5% DP	3% DP	620
Hispanics >=50%	4.61%	0.20%	0.38%	0.44%	0.44%	0.79%
African Americans>=50%	3.40%	0.34%	0.56%	0.90%	0.89%	1.30%
Asians>=50%	1.40%	0.00%	0.00%	0.00%	0.00%	0.16%
Whites>=80%	1.66%	0.10%	0.17%	0.21%	0.22%	0.45%
All	2.26%	0.14%	0.19%	0.26%	0.26%	0.52%

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Table 4: *Percentage Change - All loans Originated in 2007 By Race and Ethnicity of Neighborhood*											
Race/Ethnicity of Neighborhood	LPS Sample	QRM		10% DP		5% DP		3% DP		620	
		Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample
Hispanics >=50%	40,349	1,275	3.16%	2,252	5.58%	2,625	6.51%	2,639	6.54%	4,055	10.05%
African Americans>=50%	35,350	1,086	3.07%	1,907	5.39%	2,473	7.00%	2,502	7.08%	4,583	12.96%
Asians>=50%	4,667	356	7.63%	590	12.64%	608	13.03%	608	13.03%	669	14.33%
Whites>=80%	476,868	30,676	6.43%	50,526	10.60%	61,003	12.79%	61,632	12.92%	80,736	16.93%
All	914,494	51,669	5.65%	86,124	9.42%	102,663	11.23%	103,618	11.33%	138,421	15.14%

Table 5: *Racial Disparity Ratio of Percentage of QRM & Alternative QRM Loans – All loans Originated in 2007 (Ratio of that Race/Ethnicity of Neighborhood by to Whites>=80%)*					
Race/Ethnicity of Neighborhood	QRM	10% DP	5% DP	3% DP	620
Hispanics >=50%	0.49	0.53	0.51	0.51	0.59
African Americans>=50%	0.48	0.51	0.55	0.55	0.77
Asians>=50%	1.19	1.19	1.02	1.01	0.85
Whites>=80%	1.00	1.00	1.00	1.00	1.00
All	0.88	0.89	0.88	0.88	0.89

Table 6: *Foreclosure Rate Comparison - All loans Originated in 2007 By Race and Ethnicity of Neighborhood*						
Race/Ethnicity of Neighborhood	LPS Sample	QRM	10% DP	5% DP	3% DP	620
Hispanics >=50%	4.38%	0.24%	0.27%	0.42%	0.42%	0.89%
African Americans>=50%	4.95%	0.46%	0.63%	0.81%	0.84%	1.33%
Asians>=50%	0.86%	0.00%	0.00%	0.00%	0.00%	0.00%
Whites>=80%	1.38%	0.07%	0.10%	0.14%	0.15%	0.34%
All	1.98%	0.09%	0.12%	0.17%	0.17%	0.40%

Table 7: Specifications summary for LPS, QRM and QRM alternatives samples: *

Variables	LPS Sample	QRM	10% DP	5% DP	3% DP	620
Occupancy	Primary (Owner-occupied)					
Property Type	Single Family Residence, Condo or Town House, and Hi-rise Condo					
Product Type	Conventional					
Investor	FNMA, FHLMC, Private Securitized, Local Housing Authority, Portfolio, and Federal Home Loan Bank					
Loan Purpose	Home Purchase Refinance Cash-out Refinance					
Mortgage Type	First Mortgage, (Excluded Grade "B" or "C" First Mortgages)					
Document Type		Full				
Original Term		<=30years				
Interest only		No				
ARM Negative Amortization		No				
Balloon Payment		No				
Pre-payment penalty		No				
Interest type		*Interest type*=Fixed or ARMS If ARMS, *ARM Periodic Rate Cap* <=2, & *ARM Lifetime Rate Cap*<=6	**Same as QRM**			
Original Credit Score		>=690	>=690	>=690	>=690	>=620
DTI (FrontEndDTI)		<=28%	<=33%	<=33%	<=33%	<=33%
Loan-to-Value Ratio		For purchase mortgage transactions: LTV<=80 For Refinance loans: LTV<=75 For Cash-out Refinance loans: LTV <=70	For purchase mortgage transactions: LTV<=90 For Refinance loans: LTV<=90 For Cash-out Refinance loans: LTV<=75	For all loan purpose: LTV<=95	For all loan purpose: LTV<=97	For all loan purpose: LTV<=97

*Note: Loan data were excluded in the analysis if information for one of the above variables was missing.

Table 8: *Number of LPS sample loans compared to HMDA loans*

Year	Total Number of HMDA loans[33]		Number of LPS sample loans[34]
	Prime	Subprime	
2006	5,875,867	2,310,391	891,922
2007	5,182,332	1,148,340	914,494

[33] All first lien, owner-occupied single-family conventional loans for home purchase or refinancing.
[34] LPS sample excludes Grade "B" or "C" First Mortgages, but may still contain few subprime loans (A- grade), which is not clear in LPS data.

Home Purchase loans, Rate/Term Refinance loans and Cash-Out Refinance loans in 2006 (Table 9-17)

Table 9: ***Percentage Change – Loans Originated for Home Purchase in 2006 By Race and Ethnicity of Neighborhood***

Race/Ethnicity of Neighborhood	LPS Sample	QRM		10% DP		5% DP		3% DP		620	
		Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample
Hispanics >=50%	16,724	620	3.71%	1,072	6.41%	1,142	6.83%	1,156	6.91%	1,611	9.63%
African Americans>=50%	13,635	640	4.69%	1,067	7.83%	1,163	8.53%	1,192	8.74%	1,702	12.48%
Asians>=50%	1,735	82	4.73%	137	7.90%	140	8.07%	141	8.13%	150	8.65%
Whites>=80%	258,550	21,161	8.18%	32,482	12.56%	33,993	13.15%	34,499	13.34%	41,815	16.17%
All	475,531	33,336	7.01%	51,978	10.93%	54,390	11.44%	55,115	11.59%	67,599	14.22%

Table 10: ***Racial Disparity Ratio of Percentage of QRM & Alternative QRM Loans – Home Purchase Loans in 2006 (Ratio of that Race/Ethnicity of Neighborhood by to Whites>=80%)***

Race/Ethnicity of Neighborhood	QRM	10% DP	5% DP	3% DP	620
Hispanics >=50%	0.45	0.51	0.52	0.52	0.60
African Americans>=50%	0.57	0.62	0.65	0.66	0.77
Asians>=50%	0.58	0.63	0.61	0.61	0.53
Whites>=80%	1.00	1.00	1.00	1.00	1.00
All	0.86	0.87	0.87	0.87	0.88

Table 11: ***Foreclosure Rate Comparison – Loans Originated for Home Purchase in 2006 By Race and Ethnicity of Neighborhood***

Race/Ethnicity of Neighborhood	LPS Sample	QRM	10% DP	5% DP	3% DP	620
Hispanics >=50%	7.26%	0.32%	0.75%	0.70%	0.69%	1.18%
African Americans>=50%	4.92%	0.63%	0.66%	1.03%	1.01%	1.76%
Asians>=50%	2.07%	0.00%	0.00%	0.00%	0.00%	0.00%
Whites>=80%	1.60%	0.12%	0.18%	0.19%	0.19%	0.39%
All	2.45%	0.18%	0.22%	0.25%	0.26%	0.49%

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Table 12: ***Percentage Change – Loans Originated for Rate/Term Refinance in 2006 By Race and Ethnicity of Neighborhood***

Race/Ethnicity of Neighborhood	LPS Sample	QRM		10% DP		5% DP		3% DP		620	
		Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample
Hispanics >=50%	1,078	81	7.51%	154	14.29%	159	14.75%	159	14.75%	239	22.17%
African Americans>=50%	817	43	5.26%	93	11.38%	97	11.87%	97	11.87%	190	23.26%
Asians>=50%	494	140	28.34%	201	40.69%	201	40.69%	201	40.69%	218	44.13%
Whites>=80%	14,731	1,414	9.60%	2,992	20.31%	3,038	20.62%	3,041	20.64%	4,001	27.16%
All	28,162	2,911	10.34%	5,596	19.87%	5,670	20.13%	5,674	20.15%	7,369	26.17%

Table 13: ***Racial Disparity Ratio of Percentage of QRM & Alternative QRM Loans – Rate/Term Refinance Loans in 2006 (Ratio of that Race/Ethnicity of Neighborhood by to Whites>=80%)***

Race/Ethnicity of Neighborhood	QRM	10% DP	5% DP	3% DP	620
Hispanics >=50%	0.78	0.70	0.72	0.71	0.82
African Americans>=50%	0.55	0.56	0.58	0.58	0.86
Asians>=50%	2.95	2.00	1.97	1.97	1.62
Whites>=80%	1.00	1.00	1.00	1.00	1.00
All	1.08	0.98	0.98	0.98	0.96

Table 14: ***Foreclosure Rate Comparison – Loans Originated for Rate/Term Refinance in 2006 By Race and Ethnicity of Neighborhood***

Race/Ethnicity of Neighborhood	LPS Sample	QRM	10% DP	5% DP	3% DP	620
Hispanics >=50%	3.53%	0.00%	0.65%	0.63%	0.63%	0.42%
African Americans>=50%	2.33%	0.00%	1.08%	1.03%	1.03%	0.53%
Asians>=50%	0.61%	0.00%	0.00%	0.00%	0.00%	0.00%
Whites>=80%	2.00%	0.00%	0.27%	0.26%	0.26%	0.60%
All	2.44%	0.00%	0.23%	0.26%	0.26%	0.60%

Table 15: ***Percentage Change – Loans Originated for Cash-Out Refinance in 2006 By Race and Ethnicity of Neighborhood***

Race/Ethnicity of Neighborhood	LPS Sample	QRM		10% DP		5% DP		3% DP		620	
		Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample
Hispanics >=50%	25,336	810	3.20%	1,426	5.63%	1,667	6.58%	1,667	6.58%	2,853	11.26%
African Americans>=50%	15,744	500	3.18%	800	5.08%	1,171	7.44%	1,171	7.44%	2,656	16.87%
Asians>=50%	2,260	109	4.82%	186	8.23%	204	9.03%	204	9.03%	242	10.71%
Whites>=80%	178,613	9,402	5.26%	15,142	8.48%	21,948	12.29%	21,948	12.29%	33,612	18.82%
All	388,229	18,130	4.67%	29,480	7.59%	40,231	10.36%	40,231	10.36%	63,224	16.29%

Table 16: ***Racial Disparity Ratio of Percentage of QRM & Alternative QRM Loans – Cash-Out Refinance Loans in 2006 (Ratio of that Race/Ethnicity of Neighborhood by to Whites>=80%)***

Race/Ethnicity of Neighborhood	QRM	10% DP	5% DP	3% DP	620
Hispanics >=50%	0.61	0.66	0.54	0.54	0.60
African Americans>=50%	0.60	0.60	0.61	0.61	0.90
Asians>=50%	0.92	0.97	0.73	0.73	0.57
Whites>=80%	1.00	1.00	1.00	1.00	1.00
All	0.89	0.90	0.84	0.84	0.87

Table 17: ***Foreclosure Rate Comparison – Loans Originated for Cash-Out Refinance in 2006 By Race and Ethnicity of Neighborhood***

Race/Ethnicity of Neighborhood	LPS Sample	QRM	10% DP	5% DP	3% DP	620
Hispanics >=50%	2.90%	0.12%	0.07%	0.24%	0.24%	0.60%
African Americans>=50%	2.13%	0.00%	0.38%	0.77%	0.77%	1.05%
Asians>=50%	1.06%	0.00%	0.00%	0.00%	0.00%	0.41%
Whites>=80%	1.73%	0.06%	0.14%	0.24%	0.24%	0.51%
All	2.01%	0.09%	0.14%	0.26%	0.26%	0.53%

Home Purchase loans, Rate/Term Refinance loans and Cash-Out Refinance loans in 2007 (Table 18-26)

Table 18: ***Percentage Change – Loans Originated for Home Purchase in 2007 By Race and Ethnicity of Neighborhood***

Race/Ethnicity of Neighborhood	LPS Sample	QRM		10% DP		5% DP		3% DP		620	
		Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample
Hispanics >=50%	15,831	541	3.42%	936	5.91%	1,034	6.53%	1,048	6.62%	1,473	9.30%
African Americans>=50%	16,623	618	3.72%	1,065	6.41%	1,204	7.24%	1,233	7.42%	1,791	10.77%
Asians>=50%	1,871	80	4.28%	172	9.19%	173	9.25%	173	9.25%	182	9.73%
Whites>=80%	258,986	19,589	7.56%	31,419	12.13%	33,735	13.03%	34,360	13.27%	41,415	15.99%
All	476,234	30,944	6.50%	50,557	10.62%	54,321	11.41%	55,270	11.61%	67,422	14.16%

Table 19: ***Racial Disparity Ratio of Percentage of QRM & Alternative QRM Loans – Home Purchase Loans in 2007 (Ratio of that Race/Ethnicity of Neighborhood by to Whites>=80%)***

Race/Ethnicity of Neighborhood	QRM	10% DP	5% DP	3% DP	620
Hispanics >=50%	0.45	0.49	0.50	0.50	0.58
African Americans>=50%	0.49	0.53	0.56	0.56	0.67
Asians>=50%	0.57	0.76	0.71	0.70	0.61
Whites>=80%	1.00	1.00	1.00	1.00	1.00
All	0.86	0.88	0.88	0.87	0.89

Table 20: ***Foreclosure Rate Comparison – Loans Originated for Home Purchase in 2007 By Race and Ethnicity of Neighborhood***

Race/Ethnicity of Neighborhood	LPS Sample	QRM	10% DP	5% DP	3% DP	620
Hispanics >=50%	7.01%	0.18%	0.32%	0.39%	0.38%	1.15%
African Americans>=50%	8.02%	0.65%	0.94%	1.25%	1.30%	2.07%
Asians>=50%	1.23%	0.00%	0.00%	0.00%	0.00%	0.00%
Whites>=80%	1.52%	0.08%	0.11%	0.14%	0.14%	0.30%
All	2.39%	0.11%	0.16%	0.19%	0.20%	0.41%

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Table 21: ***Percentage Change – Loans Originated for Rate/Term Refinance in 2007 By Race and Ethnicity of Neighborhood***

Race/Ethnicity of Neighborhood	LPS Sample	QRM		10% DP		5% DP		3% DP		620	
		Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample
Hispanics >=50%	1,222	91	7.45%	169	13.83%	181	14.81%	181	14.81%	247	20.21%
African Americans>=50%	1,076	54	5.02%	131	12.17%	137	12.73%	137	12.73%	258	23.98%
Asians>=50%	601	188	31.28%	264	43.93%	264	43.93%	264	43.93%	270	44.93%
Whites>=80%	18,107	1,520	8.39%	3,309	18.27%	3,406	18.81%	3,409	18.83%	4,444	24.54%
All	35,339	3,232	9.15%	6,507	18.41%	6,675	18.89%	6,680	18.90%	8,511	24.08%

Table 22: ***Racial Disparity Ratio of Percentage of QRM & Alternative QRM Loans – Rate/Term Refinance Loans in 2007 (Ratio of that Race/Ethnicity of Neighborhood by to Whites>=80%)***

Race/Ethnicity of Neighborhood	QRM	10% DP	5% DP	3% DP	620
Hispanics >=50%	0.89	0.76	0.79	0.79	0.82
African Americans>=50%	0.60	0.67	0.68	0.68	0.98
Asians>=50%	3.73	2.40	2.34	2.33	1.83
Whites>=80%	1.00	1.00	1.00	1.00	1.00
All	1.09	1.01	1.00	1.00	0.98

Table 23: ***Foreclosure Rate Comparison – Loans Originated for Rate/Term Refinance in 2007 By Race and Ethnicity of Neighborhood***

Race/Ethnicity of Neighborhood	LPS Sample	QRM	10% DP	5% DP	3% DP	620
Hispanics >=50%	4.99%	2.20%	1.78%	1.66%	1.66%	2.43%
African Americans>=50%	1.95%	0.00%	0.00%	0.00%	0.00%	0.00%
Asians>=50%	0.83%	0.00%	0.00%	0.00%	0.00%	0.00%
Whites>=80%	2.18%	0.07%	0.12%	0.15%	0.15%	0.47%
All	2.54%	0.09%	0.12%	0.15%	0.15%	0.43%

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Table 24: ***Percentage Change – Loans Originated for Cash-Out Refinance in 2007 By Race and Ethnicity of Neighborhood***

Race/Ethnicity of Neighborhood	LPS Sample	QRM		10% DP		5% DP		3% DP		620	
		Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample	Number	% of LPS Sample
Hispanics >=50%	23,296	643	2.76%	1,147	4.92%	1,410	6.05%	1,410	6.05%	2,335	10.02%
African Americans>=50%	17,651	414	2.35%	711	4.03%	1,132	6.41%	1,132	6.41%	2,534	14.36%
Asians>=50%	2,195	88	4.01%	154	7.02%	171	7.79%	171	7.79%	217	9.89%
Whites>=80%	199,775	9,567	4.79%	15,798	7.91%	23,862	11.94%	23,863	11.94%	34,877	17.46%
All	402,921	17,493	4.34%	29,060	7.21%	41,667	10.34%	41,668	10.34%	62,488	15.51%

Table 25: ***Racial Disparity Ratio of Percentage of QRM & Alternative QRM Loans – Cash-Out Refinance Loans in 2007 (Ratio of that Race/Ethnicity of Neighborhood by to Whites>=80%)***

Race/Ethnicity of Neighborhood	QRM	10% DP	5% DP	3% DP	620
Hispanics >=50%	0.58	0.62	0.51	0.51	0.57
African Americans>=50%	0.49	0.51	0.54	0.54	0.82
Asians>=50%	0.84	0.89	0.65	0.65	0.57
Whites>=80%	1.00	1.00	1.00	1.00	1.00
All	0.91	0.91	0.87	0.87	0.89

Table 26: ***Foreclosure Rate Comparison – Loans Originated for Cash-Out Refinance in 2007 By Race and Ethnicity of Neighborhood***

Race/Ethnicity of Neighborhood	LPS Sample	QRM	10% DP	5% DP	3% DP	620
Hispanics >=50%	2.57%	0.00%	0.00%	0.28%	0.28%	0.56%
African Americans>=50%	2.24%	0.24%	0.28%	0.44%	0.44%	0.95%
Asians>=50%	0.55%	0.00%	0.00%	0.00%	0.00%	0.00%
Whites>=80%	1.13%	0.03%	0.05%	0.15%	0.15%	0.37%
All	**1.44%**	**0.05%**	**0.06%**	**0.15%**	**0.15%**	**0.40%**