October 30, 2013

Mr. Thomas Curry
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
Chairman
Federal Deposit Insurance Corporation
Washington, DC 20429

The Honorable Mary Jo White
Chairman
Securities and Exchange Commission
Washington, DC 20549

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

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

**Subject: Interagency Proposed Rule regarding "Credit Risk Retention"**

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| Office of the Comptroller of the Currency<br>12 CFR Part 43 [Docket NO. OCC-2013-0010] | regcomments@occ.treas.gov<br>RIN 1557-AD40 |
| Federal Reserve System<br>12 CFR Part 244 [Docket NO. R-1411] | regcomments@federalreserve.gov<br>RIN 7100-AD70 |
| Federal Deposit Insurance Corporation<br>12 CFR Part 373 | comments@fdic.gov<br>RIN 3064-AD74 |

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| US Securities and Exchange Commission | reul-comments@sec.gov |
| 17 CFR Part 246 | RIN 3235-AK96 |
| Department of Housing and Urban Development | www.regulations.gov |
| 24 CFR Part 267 | RIN 2501-AD53 |
| Federal Housing Finance Agency | regcomments@fhfa.gov |
| 12 CFR Part 1234 | RIN 2590-AA43 |

Dear Ladies and Gentlemen:

On behalf of NeighborWorks® America (also known as the Neighborhood Reinvestment Corporation) I want to thank the Agencies for the opportunity to provide comment regarding the InterAgency Proposed Rule regarding "Credit Risk Retention" published in the Federal Register on August 27, 2013.

Given that the 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 do not necessarily represent the views of its board members, either collectively or as individuals. These comments reflect the views of NeighborWorks America's management, which have been formed in consultation with a number of NeighborWorks America's more than 240 local and regional nonprofit affiliated NeighborWorks organizations.

NeighborWorks America is supportive of the thrust of the re-proposed rule, in particular the alignment of the definition of Qualified Mortgage (QM) with the statutory goals of the credit risk retention and exemption thereof provisions (QRM). We do not support the QM-Plus alternative that was proposed that would require a 30 percent down payment in order to be exempted from the QRM risk retention requirements.

Making sure that American families and individuals obtain sustainable lending products for homeownership is a priority issue for NeighborWorks America. Of our network NeighborWorks organizations (NWOs) 92%, or 224, help people become homeowners. The vast majority of those (99%) also provide homebuyer education and counseling.

At NeighborWorks organizations, of the 45,000 homeownership clients reported since the beginning of FY2011, 68% are low income (with incomes below 80% of AMI), and an additional 25% are moderate income (between 81% and 120% AMI). These borrowers will benefit under QM equals QRM because their access to credit will not be unnecessarily restricted even as they will be assured that the products they are using will be safe, sustainable mortgage.

It is worth noting that we cannot foresee the impact on some borrowers served by our network. There are some concerns regarding mortgage loans held in a financial institution's portfolio. These loans that serve NeighborWorks organizations' borrowers may not achieve QM status, and therefore would not achieve a QRM exemption. While the result is uncertain at this time, if the final rule were to restrict availability, increase prices, or eliminate safe, sustainable affordable lending for loans held in portfolio, we would recommend a deeper look. We encourage you to work with non-profit organizations that work with homeowners "on the ground" in order to analyze and mitigate any impact that this new regulation may have.

We have similar concerns regarding other products, such as below-market rate second-mortgages. These special products, as offered by community –based non-profit organizations, have served low- and moderate borrowers well. Not all second or subordinate-lien mortgages are created equal. NeighborWorks organizations and other non-profits have effectively used second mortgages to help families purchase or improve their homes.

In addition to helping consumers, this proposal will also have a positive effect on nonprofit organizations serving homeowners. The continued uncertainty surrounding the future of the Government Sponsored Enterprises (GSEs) and the housing finance system, along with the plethora of new mortgage-related rules coming on line in the next year, is a business issue for all organizations involved the mortgage space, including NeighborWorks organizations.
The QM equals QRM proposal is the right proposal for this time when all players are absorbing so much new information. QM equals QRM should achieve the appropriate balance between reduction of risk of default for investors and the critical access to credit necessary to make responsible homeownership an opportunity for more Americans. This proposal will simplify the requirements, limiting the compliance costs that would most likely be passed on to borrowers in the form of higher interest rate and more restrictive credit standards.

NeighborWorks America supports a requirement for borrower down payment as a part of sound underwriting of a loan. An analysis of our data from the beginning of FY 2011 through the third quarter FY2013 shows that the average NeighborWorks borrower makes an estimated down payment of 3.5%. However, while we agree that a down payment is important, we do not think that hard-wiring a set number in regulation is appropriate or necessary.

Specifically, NeighborWorks America does not believe that the correct course is to suggest that down payments should be equal to a consistent percentage of home value on every mortgage in the country. The cost of housing varies significantly across markets. For instance, a 5% down payment on a house in Tulsa, OK, where Zillow reports an average home price of $105,400 in September 2013 would be $5,270. Meanwhile, a 5% down payment home in Stamford, CT, where Zillow reports an average home price of $378,100 in September 2013, would be $18,905. Even accounting for differences in average family income between Tulsa and the Stamford metropolitan area, for many families, that 5% down payment of $18,905 is prohibitively expensive.

Estimates by the Center for Responsible Lending suggest it will take up to 22 years for the average borrower to save for a 10% down payment, and 14 years to save for a 5% down payment. These effects are magnified for average African American and Latino families, who would have to wait 28 years and 17 years, respectively.

Importantly, the level of down payment is not the only risk mitigant for loan performance. QM should ensure that borrowers have the ability to repay the funds they have borrowed. Further, QM will essentially eliminate the ability of destructive products like negative amortization and interest only loans, along with the layering of numerous risk factors that was highly problematic for borrowers, lenders and investors. Finally, high quality homeownership education and counseling can also significantly reduce risk.

If the final rule were to include some down payment requirement, however, that rule should provide for a lower-down payment only for borrowers who successfully complete homeownership education and counseling from HUD-certified counseling agencies or agencies that adhere 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.

NeighborWorks America partnered with Neil Mayer & Associates and credit reporting company Experian to survey borrowers of 75,000 mortgage loans that originated in 2007, 2008 and 2009. The results, released in March of this year, found that people who worked with NeighborWorks organizations were nearly **one-third less likely** than those who did not receive assistance to fall behind on their mortgages for 90 days or more in the first two years. The benefit was the same whether homebuyers were new or repeat borrowers.

These results are very similar to the findings reported in a Freddie Mac working paper released in April 2013, which analyzed the effectiveness of pre-purchase homeownership counseling in reducing 90-day delinquency rates. Based on data from nearly 38,000 fixed-rate mortgages originated between the years of 2000 and 2008, the study concluded that pre-purchase housing counseling reduced the delinquency rate of first-time homebuyers by 29%.

NeighborWorks America again urges that the definition of QRMs reflect the proven value of Homeownership Education and Counseling (through HUD-approved/certified counseling agencies or by organizations that have adopted the National Industry Standards for Homeownership Education and Counseling as discussed in our previous comment letter on the first proposed rule) and strongly urges that the rule recognize the successfully completion of quality homeownership education and counseling because we have found that it reduces defaults, increases credit scores, helps buyers obtain lower-cost mortgages, improves borrowers' financial standing and increase the likelihood of troubled borrowers seeking foreclosure prevention assistance.

The rule is an opportunity to build and expand the availability of homeownership and education counseling that should be supported through incentives such as reductions in interest rates or closing costs for borrowers. NeighborWorks America also encourages the agencies to promote a system where all borrowers can get homeownership education and pre-purchase counseling, especially if they are first time-homebuyers or are obtaining any product other than a long-term fixed rate mortgage.

QM-Plus, like the previously proposed QRM rule, remains a blunt tool for what should be a more sensitive analysis of credit risk. We cannot support a 30% down payment requirement for a number of reasons including concerns about prescriptive percentages hard-wired in rules. Also as proposed, we foresee that the QM-Plus would 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. Further, it would weaken efforts to strengthen and stabilize communities – including the work of NeighborWorks organizations and other community development organizations working to expand affordable housing opportunities for responsible/qualified borrowers. Finally, it would harm the ability of current homeowners to refinance or sell their homes.

A 30% down payment is not necessary in order to reduce risk and limit losses to investors. A recent Urban Institute study, "QRM, Alternative QRM: Loan default rates" by Goodman, Seidman and Zhu, found that the 90-day delinquent rate for loans originated prior to 2013 in private label securities and government sponsored enterprise purchases was substantially lower for loans that would have fit QM equals QRM definition. In the case of private label securities, the reduction was almost 18%, from 31% to 13%. In the case of GSE purchase loans, the reduction was from roughly 9 to 4 percent. As the authors of the study note, using the more standard 180-day delinquency rate, the default rate is even more markedly improved to 7.87% for private label securities and 1.43% for GSE purchases. These and other empirical studies show that the QM standards will significantly reduce risk while providing for continued access to credit, without onerous down payment requirements being embraced in the regulation.

**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 U.S. Department of Housing and Urban Development.

The primary mission of NeighborWorks America is to expand affordable rental and homeownership opportunities and to strengthen communities across the United States. NeighborWorks America provides support to more than 240 local and regional community-based NeighborWorks organizations, as well as training and service to the broader community development field. NeighborWorks organizations serve urban, suburban and rural communities in all 50 States, the District of Columbia and the Commonwealth of Puerto Rico.

In FY 2012 alone, NeighborWorks America and the NeighborWorks organizations generated more than $4.6 billion in direct reinvestment in communities across the nation, and helped 305,000 low- and moderate-income families purchase, preserve their homes, and live in safe, decent rental housing.

**Closing Comment**

In closing, NeighborWorks America would like to thank the agencies for their work in re-proposing this InterAgency Proposed Rule regarding "Credit Risk Retention". NeighborWorks America thinks that QM equals QRM strikes a reasonable balance for quality underwriting and risk management while continuing to allow access to credit by creditworthy borrowers. The economy is still in recovery and the proposal to provide some additional certainty in a complex regulatory environment is the right direction for this time. The final rule should embrace quality housing counseling and education for borrowers.

Please feel free to contact me or Kirsten Johnson-Obey, Senior Vice President for Public Policy and Legislative Affairs (at 202-760-4000 or kjohnson-obey@nw.org) for any clarification of these comments.

Sincerely,

Eileen M. Fitzgerald
Chief Executive Officer