From: Jaime Jacob

Proposal: 1411 (Ver 2) (RIN 7100-AD70) - Credit Risk Retention

Subject: Credit Risk Retention

Comments:

Public Comments on Credit Risk Retention:
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Comment: The qualified residential mortgage (QRM) definition needs to be augmented with a 20 percent down payment requirement. This is because the proposed definition relies on borrower income, but what if the borrower loses his/her job and related income? A 20 percent equity requirement would offset the loss of income risk. The proposal attempts to improve the safety of credit extension through a debt/income ratio, such as 43 percent, but 43 percent of 0 income is still 0. The alternative approach (QM-plus) is sound, but the 30 percent down payment is likely too high of a hurdle for most home buyers, especially first time homebuyers.

Some have argued that a 20 percent down payment requirement will shut low-income and some moderate-income families out of the housing market. To the contrary, it simply would require them to save money for the down payment, which would evidence their commitment to purchasing a home and making the associated payments over 15 or 30 years. I speak from experience, coming from a moderate-income family myself and saving the 20 percent down payment to successfully purchase a home.

In addition, housing prices are artificially inflated when down payment requirements are low, such as three percent. Having a 20 percent requirement would help ensure that only serious buyers are in the market and should bring home prices down by limiting non-serious entrants to the market. This would help moderate- and low-income families by improving affordability.
I've heard that a 20 percent down payment was the standard 30 or so years ago. We should return to this sensible idea. The proposal of having no down payment requirement for borrowers on QRM loans, accompanied by a meager five percent retention requirement for non-QRM loans is a recipe for disaster & a grave la 2008.