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NBA Nebraska Bankers Association

July 25, 2011

Robert E. Feldman, Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

Re: Credit Risk Retention (RIN No. 3064-AD-74)

Dear Mr. Feldman:

I write on behalf of the Nebraska Bankers Association (NBA) to comment on the proposed rules issued by the federal banking agencies to implement the "credit risk retention" requirements of Section 15G of the Securities Exchange Act of 1934, as added by Section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The NBA is a trade association which represents 220 of 221 banks and 13 of the 14 savings and loan associations in the state of Nebraska.

Section 15G of the Dodd-Frank Act generally requires the securitizer of asset-backed securities to retain not less than five percent of the credit risk of the assets collateralizing the asset-backed securities. This provision of law includes an exemption for asset-backed securities that are collateralized exclusively by residential mortgages that qualify as "qualified residential mortgages" (QRM), as the term is ultimately defined by the federal banking agencies pursuant to rule.

The NBA supports the need for prudent underwriting standards in residential mortgage lending activities. Encouraging better underwriting practices is essential for the recovery of our housing markets and for restoring confidence in mortgage-backed securities which play a critical role in promoting homeownership. However, the proposed rule regarding QRMs calls for extensive and unwarranted changes in underwriting criteria for these types of loans.

The proposed QRM exemption requires a inordinately high down payment that will result in denial of access to credit to a significant number of otherwise creditworthy borrowers. The proposed down payment requirements for a QRM will result in even the most creditworthy and diligent first-time homebuyers failing to qualify for the lowest rates and safest products offered in the marketplace. Many first-time home buyers have not accumulated the level of cash reserves required to qualify for a 20 percent down payment loan.

We would heartily encourage the federal regulators to reconsider alternatives in establishing the credit risk retention exemption status for QRM. In support of such a recommendation, the NBA would note that Congress, during consideration of the Dodd-Frank Act specifically considered and rejected the establishment of minimum down payments, in part, because these loans have proven to perform well when accompanied by strong underwriting and safe, stable product features.

Well-underwritten low down payment home loans have been a part of the mortgage finance system for many years and certainly were not the cause of the recent mortgage crisis. Unfortunately, the proposed QRM exemption ignores this fact and imposes minimum down payments of 10 or 20 percent, and equity requirements for refinancing borrowers of 25 or 30 percent. In promoting a reduced down payment requirement or other underwriting criteria for the QRM exemption, we would encourage the federal banking agencies to consider loans that are covered at the time of origination by mortgage insurance or other credit enhancements to be eligible for the QRM classification. To the extent these protections reduce the risk of default, they should be recognized as part of the QRM criteria.

We also believe that the proposed QRM standards will inhibit ongoing efforts to stabilize the housing markets. The impact of the additional cost of risk retention on non-QRMs, could have a devastating impact on an already fragile housing market. Given the tight market that already exists for credit to homebuyers and home builders, an overly restrictive QRM definition could also result in lenders fleeing the residential mortgage market. This would be particularly true for community banks which could significantly decrease mortgage market competition, diminish mortgage credit availability and drive costs even higher. Rather than providing meaningful reform to the market securitization's incentive problems, the proposed QRM standards will significantly increase borrowing costs for many homebuyers and potentially prevent others from getting access to home loans at all.

In summary, the NBA would urge the federal banking agencies to rethink the proposed QRM standards. The final product should encourage prudent lending practices that support the recovery of our nation's housing markets, attract private capital and reduce the presence of government in the marketplace and reduce future defaults without hamstringing responsible borrowers and lenders.

Sincerely,

George Beattie

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/tjm