Enterprise

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Federal Deposit Insurance Corporation
550 17th St, NW
Washington, DC 20429

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Federal Deposit Insurance Corporation
Credit Risk Retention
Comments on Notice of Proposed Rulemaking

To Whom It May Concern:

Enterprise Community Partners appreciates the opportunity to submit comments on the notice of proposed rulemaking for credit risk retention. We commend the Office of the Comptroller of the Currency (OCC), Federal Reserve System, Federal Deposit Insurance Corporation (FDIC), U.S. Securities and Exchange Commission, Federal Housing Finance Agency, and Department of Housing and Urban Development (HUD) for seeking input on how best to implement the credit risk retention requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

At Enterprise, we create opportunity for low- and moderate-income people through fit, affordable housing and diverse, thriving communities. Central to our mission is Enterprise's fundamental commitment to give those living in poverty an opportunity to move up and out. We believe that these opportunities are best provided in communities with a diverse mix of affordable and market housing options, access to jobs and social supports, and a strong commitment to the environment. Since 1982, Enterprise has raised and invested nearly $11 billion to help finance more than 270,000 affordable homes across the country.

Enterprise has nearly 30 years of experience developing and financing affordable housing for low-wealth families and communities. Enterprise Homes, our 25-year old development arm, has earned an unparalleled reputation for creating thoughtfully planned, green mixed-income communities that deliver exceptional value and quality of life. Enterprise Homes has developed communities that include nearly 6,200 homeownership and rental residences throughout the mid-Atlantic region, and we know that affordable mortgage credit is critical to creating healthy and vibrant communities for families of all incomes.

In addition, Enterprise has a Community Revitalization team that has worked nationally and locally to help communities cope with the destabilizing impact of foreclosed and abandoned houses. In order to effectively stabilize neighborhoods, we have learned that there must be exit strategies for rehabilitated properties; specifically, there must be mortgage credit available to families seeking to buy.

Therefore, with this experience, we offer the following comments:

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- Loan characteristics, proper underwriting, and counseling are more important predictions of loan performance than down payment. We commend the regulators for generally prohibiting product features that add complexity and risk to mortgages, such as terms permitting negative amortization or significant interest rate increases. It is our opinion that such risky loan features were one of the primary drivers of foreclosures in recent years. As such, we do not believe that large down payments or near-perfect credit is an accurate predictor of default. Indeed our decades of experience as a developer for low- and moderate-income homebuyers has proven that successful mortgages are those that are fixed rate, include monthly payments with taxes and insurance, and include pre-purchase counseling. Therefore, we recommend that the regulators focus on loan characteristics, proper underwriting, and counseling as ways to determine QRMs, not down payment size.

- QRMs should not exclude small rental properties. According to the 2001 Residential Finance Survey, individuals own more than 80 percent of affordable, unsubsidized rental buildings with 1-4 units. Such "mom and pop" rentals are critical to the supply of rental housing in this country and mortgage credit should be available to individuals seeking to own and operate these properties. Small rental properties are particularly important for neighborhood stabilization in the wake of the foreclosure crisis. Therefore, the QRM rule should include mortgages for small rental properties even if they are not owner-occupied.

- QRMs should not exclude downpayment assistance provided by localities and legitimate nonprofit organizations. Many moderate-income homebuyers and first-time homebuyers receive assistance from affordable homeownership programs in the form of soft-second mortgages or downpayment support. According to a 2010 study by the Urban Institute, homebuyers that receive such assistance from localities or legitimate nonprofits have default rates below market averages. The proposed QRM rule would exclude loans with junior liens, thus it would exclude loans with soft-second mortgages. Given the low default rate of these programs and their importance in helping first-time homebuyers, the final QRM rule should not exclude loans with such assistance.

- A strict QRM rule will likely shift more of the burden to FHA. According to HUD, the Federal Housing Administration (FHA) insured nearly 39% of all single-family purchase loans in 2010. This represents a drastic increase from the middle of the 2000s when FHA insured only about 4-6% of single-family purchase loans. One of the primary reasons for this increase is a lack of mortgage liquidity in the private mortgage market, especially for first-time home buyers. FHA will continue to insure a large portion of the market until private mortgages are more widely available. The proposed QRM rule is so restrictive that very few first-time homebuyers or moderate-income homebuyers will be able to qualify for a QRM. As such, these prospective buyers will turn to FHA. Thus, the proposed QRM rule will shift more of the mortgage burden to FHA at a time when the government should be trying to find ways to entice the private sector to join in mortgage risk sharing.

- A strict QRM rule could choke credit for willing homebuyers and further destabilize neighborhoods. As we seek to recover from this foreclosure crisis, it is critical that mortgage credit be available to qualified homebuyers of all income levels. This is especially true for low- and moderate-income homebuyers and neighborhoods destabilized by large numbers of foreclosed and abandoned properties. A strict QRM rule that makes it very difficult or expensive for first-time and moderate-income homebuyers to purchase a home could wipe out whole strategies to revitalize neighborhoods and deny families the opportunity to become homeowners. Homeownership and "mom and pop" rentals must be viable exit strategies for properties in these neighborhoods so that they can once again become vibrant, healthy communities. In addition, as the American population ages and more seniors seek to sell their single-family homes in favor of multi-family or smaller units, there must be credit available to first-time homeowners seeking to purchase the for-sale units.

- Be cautious of the unintended consequence of driving more buyers to subprime products. Absent specific regulations from the new Consumer Financial Protection Bureau, the proposed QRM rule could potentially revive subprime lending products. Many low- and moderate-income and first-time homebuyers will not qualify for QRMs and therefore will be unable to access traditional mortgage products. Nonetheless, this group of non-QRM eligible homebuyers will continue to exhibit demand for houses and they may seek alternative mortgage products. Recognizing this demand, financial institutions may create mortgage products with enough fees and interest rate costs to cover the risk of retaining 5% of the mortgage on their books. In the end, low- and moderate-income and first-time homebuyers could once again be subject to harmful subprime products because they would be the only form of mortgage credit available to them.

Thank you, once again, for the opportunity to provide comments on the proposed credit risk retention rule. We commend the FDIC and the other regulatory agencies for their ongoing willingness to seek and respond to public input. Please contact Amanda Roberts (aroberts@enterprisecommunity.org, 202-649-3918) with any questions or for further discussion.

Sincerely,

Robert Grossinger
Vice President
National Community Foreclosure Response Initiative