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Creating opportunities for people and places since 1977

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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:

Coastal Enterprises, Inc. (CEI), appreciates the opportunity to comment on the proposed rule published in the *Federal Register* on April 29, 2011, regarding Qualified Residential Mortgages (QRMs).

Founded in 1977, Coastal Enterprises, Inc. (CEI) is a 501(c)(3) private non-profit community development corporation (CDC) and community development finance institution (CDFI). CEI's mission is to help create economically and environmentally healthy communities in which all people, especially those with low incomes, can reach their full potential. With Maine as a primary market, CEI provides financing and technical assistance to small, medium and micro enterprises, natural resource ventures in the farm, fish and forest sectors, community facilities such as health and child care, and affordable housing. CEI also engages in state and federal policy research and development fostering policies that create resources for the CDC/CDFI field and promote triple bottom line investing practices that combine financial returns with social and environmental benefits.

CEI has been a HUD-certified Housing Counseling agency since 1996, and has extensive experience with first-time homebuyer education, prepurchase counseling, and foreclosure mitigation counseling. Based on this experience, we urge 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 but lack savings for large down payments. 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 with low down payments.

According to FDIC Chairman Sheila Bair, more than half of subprime loans securitized during 2006 and 2007 ended up in default. 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. Indeed, the Federal Housing Finance Administration 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.

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 1 to 2 percentage points higher than loans that qualify for QRMs and have 20 percent down. While these default rates are modestly higher, clearly low down payments are not the major driver of the crisis compared to the 50 percent default rates on subprime and other non-traditional loans.

Americans of modest incomes will not be able to come up with 20 percent down payments even for lower-cost homes. 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 even a modestly priced home of $100,000. 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.

CEI's experience is that three to five percent is sufficient "skin in the game" for a moderate-income homebuyer to go through the saving and budgeting process necessary to result in a responsible and financially secure purchase. We are very concerned that the 20 percent requirement will result in further stagnation of a housing market that desperately needs revitalization.

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. The FHFA's data analysis shows that PTI and DTI limits disqualify more loans from QRM status than even the low down payment requirement. In addition, 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.

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 of African-Americans and Hispanics in prime conventional home purchase lending from 2005 to 2009. Restrictive QRM standards will unnecessarily reduce lending even further. 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. Moreover, this potential damage could be the result of the proposed down payment requirement that was not even one of the explicit statutory factors listed by the Dodd-Frank Act for developing QRMs.

The regulatory agencies assert that many mortgages will continue to be made that are not QRMs. They state that institutions will either hold these loans in portfolio or retain 5 percent of the risk when they sell the loans. However, 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. We therefore urge the agencies to allow down payments of 3 to 5 percent and DTI ratios consistent with FHA guidelines to qualify as QRM.

Thank you for your consideration of our comments.

Sincerely,

Ronald L. Phillips
President and CEO

cc. National Community Reinvestment Coalition