NEIGHBORHOOD HOUSING SERVICES OF CHICAGO, INC.

Rebuilding Chicago's Neighborhoods

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August 1, 2011

The Honorable Ben S. Bernanke
Chairman
Board of Governors of the
Federal Reserve System
Washington, DC 20551

The Honorable Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
Washington, DC 20429

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

The Honorable Mary L. Shapiro
Chairman
Securities and Exchange Commission
Washington, DC 20549

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

Mr. John G. Walsh
Acting Comptroller
Office of the Comptroller of the Currency
Washington, DC 20219

Re: Interagency Proposed Rule on Credit Risk Retention

To Whom It May Concern:

Thank you for the opportunity to comment on the "Credit Risk Retention" proposed rule as required by Section 941 of the Dodd Frank Act (P.L. 111-203). Neighborhood Housing Services of Chicago (NHS) respectfully puts forth our comments regarding the proposed definition of a Qualified Residential Mortgage (QRM).

NHS is a non-profit organization that creates opportunities for people to live in affordable homes, improve their lives and strengthen their neighborhoods. We do this by educating and preparing new homeowners for success and lending to help people buy, fix, and keep their homes. NHS is Chicago's largest neighborhood revitalization organization that, since 1975, has served more than 195,000 clients and closed more than 19,200 loans to low- and moderate-income households so that those households could buy, fix, and keep a home.

As Chicago neighborhoods continue to suffer from the foreclosure crisis, with more homes becoming vacant every day, it becomes increasingly imperative to move families back into homes and support a path to neighborhood recovery. Within this framework, however, access to mortgage credit has become sharply constricted. The current Credit Risk Retention proposals could dramatically impact the availability of mortgage credit. Although the proposed QRM rule is meant to reduce excessive risk-taking in mortgage lending, and thereby help prevent another housing crisis, it unfortunately erects barriers that are too difficult for many households to overcome, thereby limiting recovery in our local communities.

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NHS

It is with this expertise and within this context that we comment on the following areas relevant to the proposed QRM definition:

1. Eligible loans
2. Borrower credit history
3. Down-payment requirement
4. Homeownership education and counseling
5. Default mitigation

Eligible Loans

NHS recognizes the harmful effects of so-called “piggyback” loans that contributed to the housing and economic crises. However, not all secondary or subordinate loans indicate a potential default. NHS has used various forms of public sector secondary loans, including local, state, and federal government lending programs including those created by HUD and the U.S. Department of Treasury CDFI Fund. These loans, which are usually low interest rate and/or forgivable, are high-performing and come with an appropriate level of homebuyer education and counseling to ensure sustainable homeownership. To this end, we recommend that public-sector subordinate loans not be prohibited as part of the QRM eligible loan definition.

Borrower Credit History

NHS agrees with the proposed rule that a credit score threshold should not be part of the QRM definition. A credit history demonstrating a borrower’s behavior around debt is of significant importance; however, a hard-lined credit score threshold is not. Credit scoring is not always within the control or understanding of many American consumers and thus could be problematic if used in making hard-lined decisions. Payment history is a much better indicator of a household’s ability to manage credit than a hard-lined credit score.

Down-Payment Requirement

NHS has significant concerns with the proposed down payment requirement. The proposed QRM exemption imposes minimum down payments of 10–20%, and equity requirements for refinancing borrowers of 25–30%. Although many people see a 10-20% down payment requirement as getting back to basics, well-underwritten low down payment loans have been a sizeable and safe part of the mortgage finance system for decades.

A 10-20% down payment requirement means that even the most creditworthy first-time homebuyer cannot qualify for the lowest rates and safest products in the market, which means that such a rule will significantly deter interest in homeownership or force responsible consumers who maintain good credit and seek safe loan products into more expensive mortgages because the costs of retaining risk will be passed onto them.

According to the National Association for Realtors, it would take more than a decade for the median American family to save enough for a 20% down payment on even a modest home. Even 10% down payments create significant barriers for borrowers, especially in higher cost

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markets like Chicago. To this end, NHS feels that the proposal unfortunately penalizes qualified, low-risk borrowers.

NHS does believe in the importance of a borrower's financial equity in the home. Although we consider a 20%, 10% or even 5% down payment requirement to be too high, we do believe it is important for a homeowner to have made a financial commitment to the purchase. Therefore, we propose that the QRM definition include a down payment requirement of a 3% cash contribution from the homebuyer. Although it is a small percentage, the cash contribution is material and demonstrates homebuyer commitment to the transaction.

Homeownership Education and Counseling

Homeownership education and counseling programs assist borrowers in determining whether homeownership is an appropriate housing option and in finding decent affordable homes. Counseling programs cover a range of topics such as understanding credit and savings; shopping for a mortgage; home maintenance; and predatory lending. The programs also provide homeowners with a thorough and unbiased review of their financial situation and the types of mortgage products that may best suit their needs.

Pre-purchase education and counseling have also been proven to help reduce mortgage delinquencies among homebuyers. Several studies examining the effect of homeownership education on default found lower delinquency and default rates for those households that had undergone counseling. In one study of a group of 34,000 loans from Freddie Mac's portfolio that received counseling services, 90-day delinquency rates were lowered by 19% for educated borrowers overall. Borrowers who received individual counseling experienced a 34% reduction in delinquency rates, while borrowers who received classroom and home-study education obtained 26% and 21% reductions in delinquency.

To this end, homeownership education and counseling is an important factor in the underwriting process. NHS encourages the consideration of incorporating homebuyer education and counseling, presented via a HUD-certified or nationally recognized curriculum, into the down payment requirement and as an additional requirement of the default mitigation eligibility criteria as outlined below.

Default Mitigation

NHS suggests that the final rule allow for a delinquent homeowner to receive post-purchase counseling. For example, if a homeowner becomes 45 days delinquent, then the servicer would refer that homeowner to a HUD-approved counseling agency for post-purchase counseling. The servicer would absorb the cost of this counseling as we feel it is an appropriate and cost-savings service to the servicer.

Even before the current housing crisis grew to its current scale, homebuyer education and counseling agencies have served as trusted advisors that can help homeowners get current on a delinquent mortgage and help the servicer maintain a consistent cash flow. An Urban Institute study on National Foreclosure Mitigation Counseling program's (NFMC) effectiveness

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concluded that the program was successful in both helping homeowners cure an existing foreclosure and reducing the likelihood that counseled homeowners would fall back into foreclosure. During the first two years of the NFMC program, counseled homeowners were 70% more likely to get out of foreclosure and avoid a foreclosure sale than if they had not received NFMC counseling. Additionally, for clients counseled in 2008, NFMC counseling produced a 45% increase in the relative odds that a post-counseling modification would be sustained through 2009. The sustainability of modifications was greater than for homeowners without counseling because counseled homeowners received larger monthly payment reductions and counseling assistance with financial management. Also for this group of borrowers, the odds of making loans current were 53% higher if they received counseling. Counseling produced payment reductions and financial planning assistance that helped move people from serious delinquency or foreclosure to a sustained cure of their mortgages.

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National economic growth will depend on creating the right conditions needed for a housing recovery. The prohibitively high minimum down payment and equity requirements and other narrowly defined provisions of the proposed QRM will impair the ability of millions of households to qualify for low-cost financing, and could frustrate efforts to stabilize the housing market.

Thank you for your consideration and for your efforts on behalf of consumers and the mortgage markets. Please feel free to contact me for any clarification of these comments.

Sincerely,

Ed Jacob
Executive Director
Neighborhood Housing Services of Chicago