From:	Hubert VanTol
To:	Comments
Subject:	QRM comments
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Robert E. Feldman
Executive Secretary
Attention: Comments
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To whom it may concern:

We are writing to oppose elements of the Agencies' proposed rule on Credit Risk Retention, primarily as it relates to home mortgage lending and securitization. On its own the proposed rule seems to reduce risk only marginally while instead doing a great deal to reduce access to affordable high quality loans for low and moderate income borrowers. Because the 2011 mortgage market consists almost solely of mortgages which are either FHA or GSE-backed, and thus exempt from the risk retention rules, the rule would have little effect on the current market. However, the Obama Administration has stated its intent to reduce the role of both FHA and the GSEs in the mortgage market. If and when that happens, the parameters set for Qualified Residential Mortgages (QRM) will likely become the de facto definition of safe loans, and all loans that fall outside of those parameters will likely become more difficult to obtain and more expensive. We anticipate the effect of that as being mostly negative for low and moderate income first time home buyers.

Specifically we are asking that the regulators reconsider the loan-to-value ratios, the debt-to-income ratios and the credit standards which are being proposed. Prior to the explosion of risky subprime mortgages in the last decade, fixed rate 30 year mortgages performed quite well even when the borrowers put as little as 3% down, had debt to income ratios up into the mid-40% range and had good, but less than perfect credit. The primary cause of the recent housing bubble and crash was Wall Street's willingness to securitize loans with risky features. They securitized loans with little or no income documentation, adjustable rate mortgages with teaser rates and rapid and large rate adjustments, loans with balloon payments, loans with negative amortization features, and loans in which taxes and insurance were not escrowed, to name just some of the more risky features.

According to the National Association of Realtors over 60% of recent home buyers made a down-payment of less than 20%. The percentage for first time home buyers is undoubtedly much higher, since those who have previously owned a home are more likely to have accumulated enough savings and equity to put 20% down. Because of this we believe that the current risk retention proposal errs by assuming that carving out only a narrow band of loans that will be eligible for the QRM exemption will lead to a healthy secondary mortgage market. We on the other hand believe that the vast majority of fixed rate 30 year mortgages are safe and should be included in the QRM as long as the loans do not have any of the extra risky features such as those described above.

We would propose that loans with up to 97% LTV and up to 41% DTI be included in the QRM bucket if those loans are fixed rate, 30 year loans, with taxes and insurance escrowed and in which the home buyer has attended a course of instruction by HUD-approved home buyer counselors, and in which their income has been fully documented..

Additionally we believe the credit standards should be loosened. While the proposal correctly avoids using a credit score number, the standards which have been chosen (no current 30 days past due and no 60 days past due in the last two years) correlate with credit scores in the mid-to-upper-700s, when experience has shown that borrowers with credit scores in the mid-600s have loans that perform very acceptably if their loans do not have any of the additional risky features described above and if the mortgages are fixed rate 30 year loans.

The proposal makes a point of the importance of borrower's credit scores in predicting default without acknowledging that for much of the past decade people with lower credit scores were actively targeted by an aggressive sales force for mortgage loans with risky features, with Wall Street securitizing the loans and the regulators watching from the bleachers. Any credit score study over the past decade which doesn't separate out borrowers who received loans with risky features is flawed. We encourage the regulators to compare the performance of prime, fixed rate 30 year loans with escrow across a range of credit scores, and then make their decisions about default likelihood on that basis, rather than using a credit score pool containing a large volume of borrowers who received loans which were designed to fail and were disproportionately targeted at low and moderate income borrowers.

While this proposal attempts to address systemic risk issues by squeezing the very people who did not cause the problem out of the mortgage credit market, there are some issues which are not addressed by this proposal and which in fact do increase risk. Many loans take on risk over time and this proposal does little to address that issue. While the proposal correctly prohibits piggy-back loans and provides some limits on loan to value ratios at the time of refinancing, second mortgages and HELOCs usually occur apart from any refinancing event. It seems likely that many loans which are originated as QRM loans will have additional secondary debt layered on to them over time. In a time of lax credit standards, a borrower with an 80% LTV and 35% DTI can quickly become a borrower with a 110% LTV and 50% DTI if they take out an improper secondary loan. Without a mechanism for requiring these secondary lenders to retain some of the risk caused by their excessive debt, a batch of QRM loans may very well become more risky over time and thwart the intention of this proposal. Likewise this proposal does nothing that will discourage credit card lenders from offering high cost and high credit limit credit cards to borrowers with a QRM loan. Any foreclosure counselor will tell you that high levels of secondary mortgage debt and credit card debt are playing a significant role in the current foreclosure crisis.

Finally the very concept of risk retention only makes sense if the risk takers fear a significant loss because of their risk-taking. However most of these non-QRM loans will undoubtedly be securitized by the "too big to fail" financial institutions that still appear to have little to lose by taking on additional risk, if they believe that the Federal Government (including some of the regulators proposing this rule) will stand ready to bail them out when they are facing insolvency. It should also be noted that these "too big to fail" financial institutions also account for the majority of the secondary loans and credit card debt that will fall outside of any meaningful controls in this risk retention proposal, and they service the majority of mortgage loans. Under these circumstances "risk retention" would appear to be an oxymoron until at least one of the major financial institutions is allowed to fail because of their risky behavior.

We urge the agencies to seriously rethink this proposal. In answer to the Request for Comment #106 on page 69– “Is the overall approach taken by the Agencies in defining a QRM appropriate?” We would say a resounding, “No!” While this proposal might work as intended if their were viable strong GSEs that could set their own standards going forward, every indication is that the QRM parameters set in this proposal will become the future definition of a safe mortgage. If that happens the American Dream of home ownership will be dealt a serious blow, without any assurances that future systemic risk in the securitization system will be controlled.

Sincerely

Lee Beaulac
Senior VP for Community & Economic Development

Cc: National Community Reinvestment Coalition