Comments of the Greenlining Institute on the Inter-Agency Proposed Rule on Credit Risk Retention

August 1, 2011

The Greenlining Institute appreciates the joint agencies' solicitation of public input for the proposed rule on credit risk retention, particularly on the qualified residential mortgage exemption.

In light of Greenlining's mission to ensure safe and equitable access for all communities to the financial sector, we are especially concerned about any disproportionate impact the implementation of this proposed rule could have for low-income families and families of color. Additionally, we are concerned about the repercussions this rule would have on the entire housing market and consequently, on our economic stability.

In principle, the idea of requiring securitizers to retain a portion of the credit risk associated with the securitization of mortgage loans, speaks strongly for the need to maintain "skin in the game" as a crucial component of responsible lending. However in practice, the proposed rule reaches far past the threshold of safety and instead effectively excludes many deserving families from the opportunity to become homeowners.

The foreclosure crisis has already stripped an entire generation of families of their homes and of the wealth that had been invested in those homes. By raising the barrier to affordable homeownership with an unreasonable 20% down payment requirement, we will not only keep families from rebuilding after foreclosure, but we will prohibit an entire generation of first time borrowers from owning a home, despite lower home prices across the country.

We urge the joint agencies to address the following questions as it considers the proposed regulations and the aggregate of public comments.

1. How Will the Proposed Rule Impact Low Income Families and Families of Color?

Research from the Center for Housing Policy has shown that in many metropolitan areas around the country, particularly those hardest hit by foreclosures, "home prices have dropped so much over the past few years that the fair market rent for a two-bedroom unit is now higher than the monthly mortgage payment for a median-priced home."[1] Despite the additional expenses that come with homeownership, this option has never been more accessible for low-income families

[1] Center for Housing Policy, Paycheck to Paycheck 2011: Is housing affordable for Americans getting back to work?

and families of color, who were previously priced out of the housing market as a result of inflated home prices.

Especially in a state like California, where the median home price can be double or triple the price of a home elsewhere in the country, it is unreasonable to expect that a low or moderate income family will be able to have enough money to provide the 20% down payment needed to qualify for a QRM. Numerous models have shown that even pre-crisis, low-income borrowers who were able to put 3% down on a home, sustained lower default rates than the national average.

2. What Impact Will this Rule Have on the Racial Wealth Gap?

Reports from the Pew Research Center have shown that the racial wealth gap is the highest that it has been in 25 years. The loss of wealth due to foreclosures, and the consequent lack of access to new homeownership opportunities have significantly contributed to this rising gap. Rates of homeownership for Latinos and African Americans have dropped considerably, at greater rates than their white counterparts. According to the most recent U.S. Census data, African-American and Latino borrowers were more likely to be turned down for a mortgage compared to whites, even after controlling for the location of the property or income[2].

The QRM proposal as written today provides a powerful disincentive to lend to any family that cannot afford the 20% down payment and will continue to exacerbate the racial wealth gap.

Conclusion

Low down payment loans and loans that were sustainably tailored to meet the needs of low income families were not the cause of the foreclosure crisis. We urge you to reconsider this proposed rule to include loans that still maintain affordability for low income borrowers.

[2] HMDA Data 2009, U.S. Census