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AlaskaUSA
Federal Credit Union®

July 29, 2011

FDIC

AUG 8 2011

OFFICE OF THE CHAIRMAN

Honorable Sheila C. Bair
Chairman
Federal Deposit Insurance Corp.
550 17th Street, NW
Washington, DC 20429

Dear Ms. Blair:

Alaska USA Federal Credit Union has been in business for over 60 years and is one of the largest credit unions in the nation. Alaska USA currently operates in Alaska, California, and Washington State and, including subsidiaries, has over 1,700 employees. In 2010, its subsidiary, Alaska USA Mortgage Company, originated over $1.2 billion in mortgage loans that consisted of conventional, FNMA, FHLMC, FHA, VA, USDA-RD, and various state housing agency loans.

We are writing you to express our concerns with regard to the proposed rule implementing the Risk Retention and Qualified Residential Mortgage (QRM) provisions required under Section 941 of the Dodd-Frank Act. We agree that a new system of accountability and transparency must be enacted for the U.S. housing industry, and we support the concept of risk retention to achieve those goals. However, we believe that the provisions contained in the current Notice of Proposed Rulemaking (NPR) will have a serious adverse impact on the long term health of the U.S. housing market and will threaten the U.S. economic recovery.

The Congressional intent behind risk retention was to reduce default and to "... improve the access of consumers and businesses to credit on reasonable terms, or otherwise be in the public interest and for the protection of investors." However, this NPR focuses on reducing default at the expense of access to credit on reasonable terms. In particular, a QRM will certainly become the standard for a 'safe' mortgage, and mortgages that do not qualify will become more expensive and harder to obtain. Increasing the cost and lowering the availability of mortgage loans is not in the public interest and, consequently, will do little to ensure the long term protection of investors.

The core issue is that few mortgages will qualify as a QRM under the current NPR. Because of this, mortgage industry advocates and consumer groups have both predicted that over one-third of potential homebuyers will be immediately taken out the market if the current NPR goes into effect. These predictions are supported by the fact that 97% of U.S. Residential Mortgage Backed Securities were issued by Fannie Mae and Freddie Mac, both Guaranteed Sponsored Enterprises (GSE's) in 2010, and less than 20% of the loans that the GSE's purchased or securitized from 1997 to 2009 would have qualified as QRM's.

We believe that three factors should be re-examined to include less restrictive criteria, since they provide little corresponding benefit in lowering delinquency to the degree of adverse impact. We would like to

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focus our comments on these three factors that will likely have the greatest impact on the cost and availability of mortgage credit under the proposed rule:

- A maximum loan to value ratio (LTV) of 80% for purchase transactions, and
- A maximum front-end ratio (housing-to-income) of 28% and a back-end borrower debt to income (DTI) ratio of 35%.

With regard to these factors and their adverse effects:

- Congress first considered and then rejected establishing minimum down payment requirements for a QRM. The legislative history of the bill indicates that down payment requirements were not written into law, since they were seen as being too restrictive with an negative effect on the availability of credit.

- Large down payment requirements will adversely influence the cost of credit for those who cannot make such down payments. Statistical evidence shows that large down payments serve as a barrier to homeownership for first-time borrowers, minorities, and low to middle income U.S. families. In fact, the Center for Responsible Lending has calculated that it will take the typical American family over fourteen years to save the 20% down payment and closing costs required for the U.S. median home price of $172,900. This 20% down payment requirement would effectively exclude lower income borrowers from ever obtaining a mortgage. Even a minimum 10% down payment requirement will create a serious adverse effect. It will take the typical American family over nine years to save for a 10% down payment and closing costs required for the U.S. median home price.

- Height Analytics found that 47% of all mortgages in 2009 had less than a 10% down payment. Had proposed QRM restrictions been in place, this would have disqualified almost one-half of all prospective borrowers from obtaining a QRM.

- A decade or more of savings for the average U.S. family will come at the expense of other needs, such as saving for retirement or their children's college expenses.

- Mortgages that do not qualify will become harder to obtain and, consequently, more expensive as the additional costs involved with retention requirements will ultimately be passed on to the consumer in the form of higher mortgage rates.

- The U.S. housing market already has a de-facto LTV requirement that uses Mortgage Insurance (MI) to meet shortfalls in LTV ratios. Several agencies have already commented that MI was not considered as criteria to offset LTV limits, as there is no historical demonstration that loans with MI exhibit less delinquency. However, their commentary also noted that MI lowers the credit risk faced by lenders and has historically paid when borrowers default on loans that have little equity in the property. Mortgage Insurance offers significant credit risk mitigation and should be allowed to meet any shortfalls in the proposed LTV ratios.

- With regard to delinquency, housing and debt-to-income ratio requirements do not provide a consistent predictive determination for loan performance without taking residual income into account. In the event of a homeowner financial crisis, there is a measureable difference in the availability of discretionary funds at the same 36% debt ratio for a family that earns $10,000 per month compared to a family earning $3000 per month.

- Heavy government involvement and support of the mortgage market is not sustainable or desirable in the long run. Mortgage Insurance and lower down payment requirements are currently allowed on loans made by the Federal Housing Administration and the GSE's, and their loans are exempt from the QRM definition under the NPR. Due to this exemption, the vast majority of borrowers will attempt to obtain government sponsored or guaranteed loans in order to avoid restrictive down payment, LTV, and DTI requirements for conventional loans. This will have the exact opposite effect of that intended by increasing the role of government agencies/enterprises and inhibiting private investment in an already shrinking real estate market. Furthermore, there is a very real danger that the added stress on these government agencies/enterprises may lead to their failure and subsequently further "bailout" by the government.

Moreover, we are concerned by the varying definitions proposed for QRM and a 'Qualified Mortgage' (QM). The Dodd-Frank Act requires that a QRM be "no broader" than a QM, and both definitions should be consistent in order to reduce regulatory burden and cost. The proposed definition of a QM was written in order to ensure the "ability to repay", and it addresses no requirements for down payment, DTI, or LTV ratios. Agencies would be able to adopt the definition of a QM as the basis for a QRM, since an ability to repay standard will also ensure a reduced incidence of delinquency.

Congress envisioned a safe, sound, and transparent environment for investors; however, we do not believe it should be at the expense of creating mortgages that are more costly and less available.

Unfortunately, the current NPR focuses too much on reducing default at the expense of access to credit on reasonable terms. An exceedingly narrow definition of a QRM will have a number of adverse effects, most notably putting home ownership out of the reach of minorities, first time homebuyers, and low to middle-income families.

We believe agencies associated with offering, protecting and providing access to the credit markets should broaden the definition of a QRM and align it with the definition of a QM prior to providing a revised NPR. This will ensure a balanced solution that will reduce mortgage default rates without threatening the economic recovery and endangering the long-term health of the U.S. housing market.

Sincerely,

Jerry Reed,
Executive Director
Mortgage and RE Lending