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Congress of the United States
House of Representatives
Washington, DC 20515–1601

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June 3, 2011

The Honorable Secretary Shaun Donovan
Secretary
U.S. Department of Housing and Urban Development
451 7th Street Southwest
Washington D.C., DC 20410-0002

Dear Secretary Donovan,

I am writing concerning your notice of proposed rulemaking to implement Section 941 of the Dodd-Frank Act which includes defining a Qualified Residential Mortgage (QRM) that will be exempt from the Act's risk retention requirements. I strongly urge you to consider lower down payment loans that have mortgage insurance (MI) as constituting a QRM.

Section 941 specifically names "mortgage guarantee insurance" as one of the factors to be included in the Qualified Residential Mortgages (QRM) definition. Yet, the notice of proposed rule-making may exclude mortgage insurance as a factor in exempting loans from Dodd-Frank's risk retention requirements.

Research has shown that a 5 percent down payment coupled with strict underwriting and documentation and a mortgage insurance (MI) policy is sufficient to guard against mortgage default. Mortgage insurers actually provide additional scrutiny to a loan application which helps safeguard lenders and investors while allowing qualified families to buy homes. An unnecessarily restrictive rule would price otherwise credit worthy home buyers out of the market.

The proposal to require a minimum 20 percent down payment requirement under the QRM definition would reduce the availability of affordable mortgage capital for otherwise qualified customers. The adoption of the current rule could be extremely damaging to the housing market. It would make it particularly difficult for the nearly 60 percent of home buyers in the United States who are not able to come up with a 20 percent down payment on a home purchase. In fact, a survey conducted by the National Association of Realtors in 2010 found that 86 percent of first-time home buyers purchased their homes with less than a 20 percent down payment.

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Other overly proscriptive elements of the proposal regarding credit history are best left in the context of establishing broad underwriting standards and principles. For example, the proposed regulation establishes overly-narrow debt-to-income guidelines last seen more than a generation ago that would further reduce access to credit for a broad range of Americans. Furthermore, it could have the unintended consequence of pushing borrowers to Federal Housing Administration (FHA) insured loans. The FHA is already playing too large of a role in the mortgage market and we should not institute policies that could exacerbate the problem.

I urge you to revise the proposed rule to reflect the intent of Congress by including prudently underwritten privately insured loans within the QRM definition. Thank you for your consideration. I look forward to your response.

Sincerely,

Tim Huelskamp

Tim Huelskamp
Member of Congress