LA11-958

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ARMED SERVICES

Congress of the United States
House of Representatives
Washington, DC 20515–1004

SUBCOMMITTEES:

CRIME, TERRORISM, AND HOMELAND SECURITY

COURTS, COMMERCIAL AND ADMINISTRATIVE LAW

SEAPOWER AND PROJECTION FORCES

EMERGING THREATS AND CAPABILITIES

July 14, 2011

Ms. Mary L. Schapiro, Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Mr. Edward DeMarco, Acting Director
Federal Housing Finance Agency
1700 G Street, NW, 4th Floor
Washington, DC 20552

Mr. Ben S. Bernanke, Chairman
Board of Governors of the Federal Reserve
20th Street and Constitution Avenue, NW
Washington, DC 20551

Mr. John Walsh, Acting Comptroller
Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219

Mr. Martin Gruenberg, Chairman
Federal Deposit Insurance Corporation
1776 F Street, NW
Washington, DC 20006

Mr. Shaun Donovan, Secretary
U.S. Department of Housing and Urban Development
451 7th Street, SW
Washington, DC 20410

Dear Chairman Schapiro, Acting Director DeMarco, Chairman Bernanke, Acting Comptroller Walsh, Chairman Gruenberg, and Secretary Donovan:

I write to express my deep concerns regarding your notice of proposed rulemaking on the regulations to implement Section 941 of the Dodd-Frank Act which includes the definition of a Qualified Residential Mortgage (QRM) that will be exempt from the Act's risk retention requirements. I strongly urge you in this process to consider lower down payment loans that have mortgage insurance (MI) as constituting a QRM.

Section 941 of the Dodd-Frank Act specifically names "mortgage guarantee insurance" a factor to be included in the QRM definition. The law recognizes that private capital does not exclusively come from a lender or an investor; it can be provided by a private mortgage insurer. The QRM regulations should reflect this important reality, which was Congress' intent in clarifying this point in the Act. As we seek to ensure sustainable home ownership supported by the private sector, it should not go unnoticed that loans with private mortgage insurance default less often than uninsured loans. Mortgage insurers provide additional scrutiny on a loan application, supplementing the lender's review. In addition, mortgage insurers have well-

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established procedures that have been shown to mitigate and cure loan deficiencies. These safeguards protect lenders and investors while keeping families in their homes. This is important to consider as we seek ways to create sustainable home ownership opportunities for Americans through the private sector with less reliance on government-supported mortgage finance products.

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 consumers. In fact, in 2009 when underwriting standards had already been significantly tightened, the majority of homes were purchased with less than a 20 percent down payment. An unnecessarily strict QRM definition would particularly harm first-time and minority homebuyers. Creditworthy first-time homebuyers would be priced out of the market, as evidenced by a survey by the National Association of Realtors that found in 2010, 86 percent of first-time homebuyers made down payments below 20 percent. The resultant reduction in demand for housing, due to an overly burdensome government dictate, would only add to the challenges the housing market faces, and could threaten a full-fledged economic recovery from years to come.

Other overly proscriptive elements of the proposal regarding credit history are best left in the context of establishing broad underwriting standards and principles. I am concerned, for example, that 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, this 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 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. I thank you for your consideration and look forward to your timely response.

Sincerely,

Hank Johnson

Hank Johnson
Member of Congress