City of Cleveland
Frank Jackson, Mayor

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May 16, 2011

Via Email To: regs.comments@occ.treas.gov; regs.comments@federalreserve.gov; Comments@FDIC.gov; rule-comments@sec.gov; RegComments@fhfa.gov

RE: Subject line of: RE: Credit Risk Retention, Docket Number OCC-2010-0002; Docket No. R-1411; RIN 3064-AD74; File Number S7-14-11; RIN 2590-AA43; Docket Number FR–5504–P–01

To Distribution:

This is to urge you to significantly alter your proposed Qualified Residential Mortgage (QRM) rule in order to preserve homeownership as a realistic option for moderate- and middle-income Americans who are creditworthy but lack savings for large down payments. When Congress was drafting the Dodd-Frank Wall Street Reform and Consumer Protection Act, lawmakers were concerned that risky subprime and non-traditional loans were issued in large volumes because institutions did not experience financial consequences for high default rates. Hence, Congress imposed a 5 percent risk retention requirement targeting subprime and non-traditional loans, not prudently underwritten loans with low down payments.

According to FDIC Chairman Sheila Bair, more than half of subprime loans securitized during 2006 and 2007 ended up in default. Problematic adjustable rate mortgages with payment options poorly explained to borrowers also ended up with high default rates impacting middle income communities. It was the risky and abusive features of subprime, adjustable rate, and other nontraditional loans that drove the crisis, not low down payments. Indeed, the Federal Housing Finance Administration concludes that the product type requirements of QRM such as prohibitions against loans not verifying borrower income is the QRM requirement that has the largest impact of reducing delinquencies.

In contrast to the high default rates associated with subprime and non-traditional loans, the regulators' analyses reveal that loans qualifying for QRMs with the exception of low down payments (less than 20 percent down) have default rates 1 to 2 percentage points higher than loans that qualify for QRMs and have 20 percent down. While default rates are modestly higher (a finding corroborated by noted economist Mark Zandi of Moody's Analytics), low down payments are not the major culprit of the crisis. Clearly, default rates on low down payment loans

pale in comparison to the 50 percent default rates on subprime and other non-traditional loans.

A large segment of American families will have considerable difficulty with a 20% down payment even for homes that are modestly priced. Mark Zandi chief economist of Moody's Analytics documents that fewer than half of all loans originated in 2010 had loan-to-value ratios below 70 percent. For minorities and first time homebuyers of all races, the situation could be especially bleak. According to the Census Bureau, African-Americans had a median net worth of about $8,600 in the mid-2000s, which is clearly not enough to generate a 20 percent down payment on even a modestly priced home of $100,000. According to Harvard University's calculations of the Federal Reserve's Survey of Consumer Finances, the median white renter had cash savings of about $1,000 and the median minority renter about one-quarter that amount in 2007.

A troubling aspect of the QRM proposal is the ratios regarding housing payment-to-income (PTI) and debt-to-income (DTI). The agencies propose that loans would qualify for QRMs only if their PTI and DTI ratios are 28 and 36 percent, respectively. While high PTI and DIT ratios are problematic, the proposal is an over-reaction to the foreclosure crisis. Loans backed by the Federal Housing Administration (FHA) exhibit considerably lower default rates than subprime loans, and FHA loans have DTI ratio limits that can go up to 41 percent. The FHFA's data analysis shows that PTI and DTI limits disqualify more loans from QRM status than even the low down payment requirement. In addition, the FHFA analysis shows that loosening the PTI and DTI requirement significantly increases loans that qualify as QRMs while not significantly increasing default rates of QRM loans.

Prime conventional lending has plummeted for all borrowers but particularly for minorities during the last several years. NCRC Home Mortgage Disclosure Act (HMDA) data analysis reveals a decline of 67 percent for whites, and 85 percent of African-Americans and Hispanics in prime conventional home purchase lending from 2005 to 2009. Restrictive QRM standards will unnecessarily reduce lending even further. The present QRM proposal will not only shut out large numbers of modest and middle-income families from homeownership but could also thwart the shaky economic recovery that is currently being held back by difficulties in the lending and real estate industries. Moreover, this potential damage could be the result of the proposed down payment requirement that was not even one of the explicit statutory factors listed by the Dodd-Frank Act for developing QRMs.

The regulatory agencies assert that many mortgages will continue to be made that are not QRMs. They state that institutions will either hold these loans in portfolio or retain 5 percent of the risk when they sell the loans. However, QRMs could very well set the standard for the entire market meaning non-QRM loans will either not be available or will be much more costly. In real terms, this could mean

significantly less credit or much more expensive credit for broad swaths of Americans. We therefore urge the agencies to allow down payments of 3 to 5 percent and DTI ratios consistent with FHA guidelines to qualify as QRM.

Thank you for your consideration of these comments.

Sincerely,

Rose A. Zitiello, Manager Bank Relations

Cc: Daryl P. Rush, Director Community Development

cc. National Community Reinvestment Coalition