Delivery via E-mail

August 1, 2011

Mr. John G. Walsh, Acting Comptroller
Office of the Comptroller of the Currency
250 E Street SW—Mail Stop 2-3
Washington, D.C. 20219

Ms. Jennifer Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C 20051

Mr. Robert E. Feldman, Executive Secretary
Attn: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20429

Mr. Alfred Pollard, General Counsel
Attn: Comments/RIN 2590-AA43
Federal Housing Finance Agency
Fourth Floor
1700 G Street, NW
Washington, D.C. 20552

General Counsel, Regulations Division
Department of Housing & Urban Dev.
451 7th Street, SW Room 10276
Washington, D.C. 20410

Ms. Elizabeth Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Re: Credit Risk-Retention Requirements (Section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act); particularly as to the proposed exemption for Qualified Residential Mortgages (QRMs) from the 5% Risk-Retention Requirement

Dear Ladies and Gentlemen:

The Wisconsin Credit Union League, serving 225 credit unions and over two million members, welcomes the opportunity to provide the following comments to the proposed "QRM" mortgage lending rule. Although the QRM rule does not apply directly to credit unions, we are very concerned about the unintended consequences that the proposed rule will no doubt have on credit unions and their members.

Let us say first that we generally deplore the activities of those mortgage lenders and brokers who helped to precipitate the economic turmoil from which our country is still emerging, and we condemn also the borrowers who entered into loans they obviously could not afford. We therefore support Congress's efforts to encourage more principled underwriting that assumes responsibility for the quality of mortgage loans. This proposed rule, however, fails on several counts to implement Congress's intentions. Congress directed a rule that rewards principled lenders and penalizes bad lending—one that balances the need for appropriate credit standards against the need for credit access that will help get our country out of its economic doldrums. This rule as proposed will penalize the very lenders that stayed true to principled underwriting standards even during the

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height of abusive lending practices and lax underwriting and will also raise unnecessary barriers for creditworthy borrowers who want to buy houses and help restore our tattered economy.

In particular, these are our concerns:

- The rule as proposed requires high minimum down payments of 10-20 percent, *even though* Congress considered and specifically *rejected* establishing minimum down payments. Historical facts demonstrate that loans with down payments lower than 10 percent can perform very well when accompanied by strong underwriting and safe, reliable product features such as mortgage insurance. The result of the proposed rule: no safer lending but responsible consumers who maintain good credit but cannot come up with a significant down payment will either not be able to buy a home or will pay more for their loans. *(See page 3 of the whitepaper entitled "Proposed Qualified Residential Mortgage Definition Harms Creditworthy Borrowers While Frustrating Housing Recovery," prepared by 45 trade associations to address this proposed rule: "Based on the most recent available data on income, home prices, and savings rates, it would take 9.5 years for the typical American family to save enough money for a 10 percent down payment, and fully 16 years to save for a 20 percent down payment…, assuming that the family directs* ***every penny*** *of savings toward a down payment, and nothing for their children's education, retirement, or a 'rainy day…. A median income family that sets aside $1000 per year of its savings for college tuition or retirement would need nearly 9 years to save for even a 3.5 percent down payment.)* **Congress's intent was NOT to relegate creditworthy, hard-working homebuyers to higher cost mortgages—or none at all—because they could not qualify under this proposed rule for a QRM with the lowest rates and safest products in the market.**
- The rule as proposed raises concerns for the products available in the future to credit unions and their members. For example, even though loans sold to government-sponsored entities such as Freddie Mac and Fannie Mae are QRM-exempt under the proposed rule, there will likely be a trickle down effect in which the QRM definition is applied to many other areas of risk concentration and regulation. Moreover, the GSEs are due for review in the near future. If those organizations are scrapped or restructured significantly, credit unions may have no other place to sell mortgage loans except to large banks with sufficient resources to hold the capital associated with non-QRM mortgages. The fact that FHA-insured loans are QRM-exempt is not of much help to credit unions, which have not traditionally used many FHA loans because of their complex origination and servicing requirements as well as their limited attraction for borrowers with standard credit profiles or the ability to make larger down payments.
- Credit unions have a proven track record of originating higher loan-to-value loans in a prudent manner, demonstrated by delinquency trends well below industry. This proposed rule would appear to force credit unions in the future either to sell directly to the market and meet reserve requirements or sell to a few very large financial institutions with the capital to support the required reserve. In the latter option, the fee from the buying financial institution will likely be higher than its actual cost for the risk retention, creating an unlevel playing field in the mortgage industry when comparing consumer mortgage costs between large and small financial institutions. This is not a good result for either consumers or their credit unions.

- Many credit unions hold mortgage loans in portfolio, which results in better member-service. Under this proposed rule, credit unions may be faced with having to sell loans service-released driven by new outlets for liquidity. So whereas today credit unions may choose to retain servicing on loans because of the underlying value of the overall member relationship, a change to selling service-released would likely adversely affect credit unions' member relationships and retention strategies.

In conclusion, we ask that you reconsider the parts of the proposed QRM rule that 1) fail to acknowledge the historical strength of credit unions' risk management practices and responsible approach to mortgage lending through conscientious underwriting and commitment to the best interests of their members; 2) risk the creation of an unlevel playing field between small and large financial institutions; and 3) fall short of Congress's mandate to improve access to credit on reasonable terms and make QRM loans accessible to a broad range of borrowers without exclusions based on unduly restrictive criteria such as pre-determined down payment requirements. Credit unions are excellent and responsible lenders. This proposed rule ties their hands, and restricts their ability to help their members, unnecessarily and imprudently.

Thank you.

Sincerely,

Joanne R. Whiting
Executive Vice President and Chief Advocacy Officer
The Wisconsin Credit Union League