

# United States Senate

WASHINGTON, DC 20510

September 16, 2011

The Honorable Mary Schapiro  
Chairman  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

The Honorable Ben Bernanke  
Chairman  
Board of Governors of the  
Federal Reserve System  
Twentieth and Constitution Avenue, NW  
Washington, DC 20551

The Honorable Martin Gruenberg  
Acting Chairman  
Federal Deposit Insurance Corporation  
550 17th Street, NW  
Washington, DC 20429

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

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

The Honorable Shaun Donovan  
Secretary  
Department of Housing and Urban  
Development  
451 7th Street, SW  
Washington, DC 20410

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

You have heard a host of concerns with the proposed Qualified Residential Mortgage (QRM) definition contained in the proposal issued by your agencies pursuant to section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203). We are concerned that your proposal to move mortgage underwriting away from credit scores to a narrow set of "derogatory factors" contained in credit reports will have a negative impact on both consumers and financial institutions alike.

We are deeply concerned that the proposed "derogatory factors" are not nearly as predictive of default risk as credit scoring models. The proposed standards only focus on negative credit history; there is no consideration of positive credit information. In fact, the information included in the proposed QRM credit history standards consists of less than one third of the data considered by analytically derived credit scoring models. Third party research has shown that the proposed QRM credit history standards would lead to distorted outcomes allowing for some of the riskiest borrowers to be included under the QRM definition, while other low-risk borrowers are excluded.

The proposed credit history standards would create other unintended consequences. Some of the data relied upon in the proposed standard, such as timing of short sales and

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repossessions, cannot be readily identified in credit reports. Furthermore, allowing borrowers to meet the derogatory factors as much as 90 days out runs counter to today's practices where credit scores are checked days from the closing of the loan. This could lead to important loan decisions being based on stale information, increasing risk exposure in the securitization process.

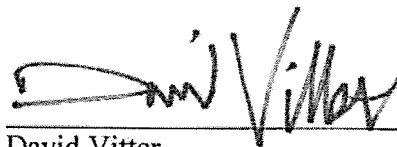
This proposal represents a significant step backwards away from the automated underwriting systems employed today to a manual review of credit reports. This will likely lead to greater costs, delays and transparency concerns for all participants in the securitization market. Furthermore, the advent of credit scores played a key role in eliminating the problems associated with subjective underwriting. As a result, any return to manual underwriting practices should be subject to great scrutiny.

There is a long list of government research that has confirmed credit scoring as the most predictive tool in measuring credit risk while providing numerous consumer benefits. The existing regulatory framework provides strict standards for the use of "empirically, derived and demonstrably and statistically sound" credit scoring models that are subject to regulatory oversight. In creating a QRM standard we must ensure that it supports a healthy, stable and transparent securitization market. To do this, we believe that if credit history standards are to be a part of the QRM definition then the final rule should provide for a vendor-neutral solution that supports the use of credit scores.

Sincerely,



Mike Johanns  
United States Senator



David Vitter  
United States Senator