

August 29, 2012

Honorable Ben S. Bernanke
Chairman
Board of Governors of the
Federal Reserve System
Washington, DC 20551

Honorable Thomas J. Curry
Comptroller
Office of the Comptroller of the
Currency
Washington, DC 20219

Mr. Edward DeMarco
Acting Director
Federal Housing Finance Agency
Washington, DC 20552

Honorable Shaun L. S. Donovan
Secretary
U.S. Department of Housing and Urban
Development
Washington, D.C. 20410

Honorable Timothy Geithner
Secretary
U.S. Department of the Treasury
Washington, DC 20220

Honorable Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
Washington, DC 20429

Honorable Mary L. Shapiro
Chairman
Securities and Exchange Commission
Washington, DC 20549

Dear Ladies and Gentlemen:

We are writing to supplement the record on the rules concerning credit risk-retention pursuant to section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Specifically, we are writing to provide greater detail on the Center for Responsible Lending's (CRL's) opposition to the inclusion of a down payment requirement as part of the Qualified Residential Mortgage (QRM) standard. While a lot of commentary and research was submitted in response to the specific proposed rule to incorporate a 20 percent down payment requirement into the QRM definition, little has been written on the potential adverse impact of a 10 percent requirement. The comments and analysis provided in the attached CRL issue brief are intended to fill that void.

For decades, low down payment loans have been used with great success to promote sustainable homeownership, particularly for low- and moderate-income and minority families. Low down payment loans did not cause the current foreclosure crisis—irresponsible underwriting and toxic loan terms did. We strongly support the restrictions on abusive terms and practices in the proposed rules for Qualified Mortgages (QMs); these restrictions will go a long way toward preventing another crisis. Imposing regulatory down payment requirements on top of the QM restrictions, however, will deny millions of Americans access to affordable loans without a commensurate benefit in

default rates. Research has shown that, once the proposed product restrictions of QM are in place, a 10 percent down payment requirement would have only a marginal impact on default rates—about one percentage point—while locking 30 percent of borrowers out of the mainstream market.

The borrowers that will be excluded from the market include both low-income and middle-class families. For a family with median income, it would take *20 years* to save a 10 percent down payment plus closing costs for a median-priced home. The barriers would be even greater for families of color. For typical African-American and Latino families (i.e., those earning the median income for their respective group), it would take *31 and 26 years* to save enough, respectively. Sixty percent of African-American borrowers and 50 percent of Latino borrowers who are *currently successfully paying their mortgages* would not have been able to access these loans if a 10 percent down payment had been required. As a result, not only would a regulatory down payment requirement exacerbate the already enormous wealth gap between white and nonwhite families, but it could create a new “dual market”, where minority and moderate-income borrowers are relegated to fringe mortgage products served outside the financial mainstream.

Finally, by denying so many borrowers access to affordable mortgages, a regulatory down payment requirement would decrease housing demand and put downward pressure on housing prices. Given the fact that a majority of new households over the next decade will be comprised of minority families and because a down payment requirement would be particularly burdensome for these families, the impact on the housing market would be substantial. Therefore, by slowing, or even reversing, the housing recovery, a down payment requirement could create macroeconomic conditions that actually increase foreclosures, counteracting any marginal benefits to individual default rates.

The pending QM rules, when adopted, will address the loan underwriting weaknesses and abusive loan structures and terms that added undue risk to the mortgage and financial markets. As you know, the Dodd-Frank Act provides that the QRM rule must include the provisions of the QM rule, and the designated rulemaking agencies may, but are not required, to add further requirements. We respectfully recommend that QRM be promulgated to be the same as the QM requirements. This approach would provide the necessary individual loan and systemic protections while providing operational efficiencies at a time when many other regulatory changes are being implemented.

Attached, please find CRL’s issue brief, which provides greater detail and supporting analysis of the impact of the inclusion of a down payment requirement as part of the QRM standard.

Respectfully,

Martin Eakes
Chief Executive Officer
Center for Responsible Lending

Antonio González
President
William C. Velasquez Institute

Lisa Hasegawa
Executive Director
National Coalition for Asian Pacific American Community Development

Wade Henderson
President and Chief Executive Officer
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Marc Morial
President & CEO
National Urban League

Hilary O. Shelton
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National Association for the Advancement of Colored People
Shanna Smith
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