July 25, 2011

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

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

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

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

Honorable Shaun L. S. Donovan
Secretary
Department of Housing & Urban Development
Washington, DC 20410

Mr. John G. Walsh
Acting Comptroller
Office of the Comptroller of the Currency
Washington, DC 20219

Re: Credit Risk Retention Proposed Rule

Transmitted electronically to

- OCC: regs.comments@occ.treas.gov (Docket No. OCC-2011-0002)
- Federal Reserve: regs.comments@federalreserve.gov (Docket No. R-1411)
- FDIC: comments@FDIC.gov (RIN 3064-AD74)
- SEC: Rule-comments@sec.gov (File Number S7-14-11)
- FHFA: RegComments@FHFA.gov (RIN 2590-AA43)
- HUD: HUD requires that electronic comments be submitted through the Federal eRulemaking Portal at www.regulations.gov.

Distinguished Madam and Gentlemen:

Thank you for the opportunity to comment on the Qualified Residential Mortgage (QRM) rule. The Community Mortgage Lenders of America (CMLA) represents roughly 80 small to mid-sized, community based mortgage lenders, counting both traditional mortgage bankers, and the mortgage arms of insured depositories. Our membership collectively avoided lending in the subprime market and as a result has emerged from the crisis with sustainable and conservative business models. The Association’s mission, and the membership’s goal, is to continue to buttress local communities across the country, as demonstrated by the over $100 billion in mortgage loans financed by our membership during 2010. The purpose of this letter is to respectfully offer to you our opinion that the present QRM rules are not well defined, are open-ended, and will create an unhealthy and material economic impact upon the housing industry.

When examining largely undefined regulations stemming from a large piece of legislation, it may help to step back and review some “big picture” facts. In today’s residential mortgage market, the abusive subprime lenders are gone, abusive products have been resoundingly condemned, and only highly conservative mortgage products [primarily those with
government sponsored/owned enterprises “GSEs”) are being financed. In point of fact, loans originated today follow
the tried and true underwriting standards tested over decades of verified assets, verified income, analysis of the credit
report (not simply relying on the FICO score), and independent collateral assessment (i.e. appraisal). It is in our belief
that it is in the best interest of the country to never allow this kind of wealth-robbing lending again. We must ensure that
residential mortgage finance produces sustainable growth, as opposed to unsustainable (bubble) growth. Furthermore,
this type of growth in a healthy financial market must come from encouraged private investors (conduits, investor in
mortgage-backed securities, etc.) rather than reliance upon the GSEs. On these fundamental opinions, wide public policy
consensus exists.

But the rule as drafted does something else entirely. The practical and presumably unintended result of the rule will be
the erosion of most consumers’ largest asset, their home. The rule is so restrictive and draconian in its outlook, that by
condemning the majority of US homebuyers to much higher costs and much larger down-payments, the rule will dampen
demand, shut off sustainable new home lending, and force a renewed decline of home prices as sellers search vainly for
qualified buyers to consummate sales. It will also push too many people in rental markets, forcing higher, and
uncontrollable, housing costs upon them over time.

Contrary to the Congressional intent of “pricing up” those exotic lending products that contributed to the downturn\(^1\),
data so far have shown that the proposed rule goes well beyond correcting the excesses of 2006-2008, and carves out
material portions of structurally sound underwriting. CMLA urges policymakers to write a rule that will protect, heal,
and renew the country’s residential real estate and mortgage markets; one that will not shut off the future seed capital to
safe lending, strong communities, and sustainable economic growth; and one that lifts up all families paying their bills on
time and seeking economic opportunity. As history has now shown us, loans that were originated with higher costs from
interest rate and fees which, resulted from underwriting overlays (based upon product type, credit history, payment
shocks, and/or undocumented incomes with high LTV and/or larger DTIs) have performed exceptionally poorly. But
rather than isolate the meaningful factors, the draft rule chooses a “belt, suspenders, rope, and chain system” of checks
and balances that go well beyond any rational approach.

The CMLA, on behalf of its membership, would like to comment on the following eight (8) important elements of the
proposed rule:

1. LOAN TO VALUE (LTV) TEST
On the subject of down-payments, CMLA joins many other industry and consumer groups in condemning down-
payment requirements in the absence of any data showing that, by itself, an LTV of 95% to 80% contributes substantially
to safe lending. The cost/benefit analysis test does not work here: the rule will ordain very little net safe lending while it
shuts out a major component of future housing market (first-time home buyers) and economic growth going forward.
Given the volume of data supplied by many other organizations, CMLA does not need to repeat any of the data here.

One final check on the isolated factor of LTV to safety and soundness can be found in the Veteran’s Administration (VA)
loan system. It is worth noting that according to MBA data, VA loans, typically with zero percent (0%) down,
nevertheless perform roughly equivalent to fixed prime mortgages. If LTV was a dominant factor for the definition of
unsound, or potentially harmful mortgage lending, would not the VA have modified its loan programs?

The CMLA agrees with Sen. Isakson’s comments, as published in the The Hill on February 16\(^{th}\) regarding the down-
payment component of the draft QRM rule:

“This is not what we intended. We sought to curtail lax underwriting standards and risky
products by lenders, not to penalize credit-worthy borrowers seeking homeownership. In fact,
we debated and specifically rejected a minimum down payment standard for the Qualified Residential Mortgage.”

CMLA believes that the QRM rule should have no LTV component. This factor will remove qualified buyers,
particularly first-time homebuyers from the housing market.

\(^1\) loosely defined as Alt-A, No doc, 2/28s, 3/27s, and so-called “Liar Loans”, which, constituted no or low down-payments and stretched DTI
beyond reason, were essentially programmed to fail.
2. DEBT TO INCOME (DTI) RATIO

On the topic of DTI, VA loans again provide a reality check. If DTI by itself were a workable benchmark, one that generated significant safety and soundness benefits that outweighed the opportunity cost of families shut out from the mortgage market, we would not see the level of VA mortgages being financed, with extended back-end DTI ratios of 45%, performing the way they do. But even if the VA example seems a stretch, the GSE automated underwriting systems routinely accepts DTI of 40 to 50%, and these securitized loans' performance has been very strong in the last several years—the GSEs have tightened underwriting in other areas.

Having reviewed several sets of data from varying sources, CMLA notes that loans with fully documented income and assets, total DTI of 41% or less, 7/1 ARMS to longer fixed rate terms, and MI-covered, non-balloon, non-IO, and non-NegAm loans, have typically performed 3 times better than mortgages outside the above category.

While some may critique the current “safe” lending non-performing rates at above 7% for 2006 and 2007 books of business, CMLA believes this “once in a generation” stress ought to be covered by appropriate secondary market pricing and NOT by the risk retention rule.

CMLA recommends the DTI test be removed.

3. WIDE VERSUS NARROW DEFINITIONS OF QRM FOR THE MARKET

On the topic of “we must have a narrow QRM so as to not orphan the non-QRM marketplace,” CMLA finds this thought not only flawed in its economic thinking, but devoid of any substantial Congressional intent. The notion that the broad housing market must suffer, and overall US economic growth be retarded, to facilitate the part of the mortgage market that contributed more to the economic downturn, really has no basis in fact.

Barring a detailed cost/benefit analysis of this very scenario whereby the regulators show to the public an obvious net benefit to the US overall, this flawed approach must be scrapped entirely.

4. DURATION

CMLA weighed in during the Dodd-Frank debate of 2010, that retained risk ought to have a duration limit, and we still believe some “sunset” limit must be placed on these securities. Congressional intent on retained risk was to discourage poor underwriting. Given that poorly-underwritten loans generally blow up in the first 12-36 months of performance, and subsequent deterioration is due to macroeconomic factors such as economic downturns, CMLA believes permanent duration is insuring against a risk that no longer exists (and macroeconomic risk-based pricing ought to be placed on the secondary market system directly.) Without some limit of duration, the market pricing (and resulting costs) becomes distorted. To not put some “sunset” limit on duration here is akin to requiring a person to pay life insurance premiums beyond the person’s date of demise.

Mechanically, CMLA also fears that well-underwritten loans sold to Fannie and Freddie would lose their “safe harbor” status once the GSEs exit conservatorship.

We believe that the Proposed Rule should create a limit of three (3) years duration for lenders that also demonstrate solid underwriting track records with a net worth of $10 million and below. Without some form of limit, the chart attached (APPENDIX A) shows the burden to fall on small lenders, who must retain an unhedged $90 million dollars after 5 years for a 5% retained risk and over $150 million after ten years.

The capital markets surrounding small lenders simply won’t offer up this kind of money given the margins generated by the business. In effect, the capital markets will signal that these small lenders, even ones that originated only solid product for many years, no longer have an economic future in this country.

CMLA’s recommendations are to have duration limited to 3-years for all non-QRM mortgages and that all loans sold to Fannie and Freddie be provided a safe-harbor once the GSEs exit conservatorship.

5. ORIGINATOR ASSIGNMENT

The Proposed Rule allows the sponsor/securitizer to impose a “voluntary” agreement upon the originating lender that would require the lender to shoulder a portion of the securitizer’s risk retention requirement. CMLA believes that this allocation provision requires significant modification because (1) any such agreement cannot be classified as “voluntary,” (2) monitoring and auditing for compliance is disproportionally burdensome and cannot be conducted with any degree of
accuracy; and (3) the originator is potentially saddled with losses (in a consolidated securitization vehicle) that it did not bargain for, has no control over, and cannot absorb under any reasonable business model. The allocation rule is simply unworkable in practical application.

The authors of the proposed rule took great effort to state that any risk-sharing agreement is not mandated and must be voluntary. This statement ignores the very basic economic realities of the mortgage lending industry. Investors who purchase and later securitize mortgage loans are the primary, and many times, only market for the originator’s products. The originator is therefore dependent upon a positive working relationship with the investor/securitizer. Both the originator and the investor/securitizer are very well aware of the realities of their relationship. Therefore, the investor has traditionally imposed all conditions, guidelines and requirements that it unilaterally deemed fit without consulting with or otherwise seeking the input of the originator.

There is no reason to believe that the investor/securitizer will not require originators to bear the burden of retention requirement to the highest level allowed by law. In fact, the investor/securitizer has a great incentive to require the originator to shoulder as much of the retained risk as possible because this would directly reduce the amount of restricted cash the investor would otherwise be required retain. It would also allow the investor to offset the originator’s portion against the amount that it pays for the loan, resulting in an instant and deep discount for the investor/securitizer on all secondary market transactions.

The Proposed Rule itself points out the adhesive nature of the originator’s relationship with the securitizer by allowing the securitizer to unilaterally dictate the form in which the originator must satisfy the retained risk requirements. The securitizer is vested with utter discretion to choose whether to proceed under the horizontal risk retention option or the vertical risk retention option. The originator has no voice in that decision and must comply with the directives of the securitizer.

Any so-called “voluntary” agreement between the investor/securitizer and the originator would have a destructive effect on local community lenders and the consumers they serve. The community lender’s business model is not designed to carry such a heavy, long-term cash investment as required by the proposed rule, as these lenders generate a substantial portion of their income from the margin between the cost of origination and the price for their transactions on the secondary market. If that margin is decreased by the cost of risk retention, local originators will be required to either (1) cease lending due to the unavailability of resources to meet retained risk requirements, or (2) pass the extra costs directly to the consumer, which will significantly decrease the competitiveness of local lenders.

The proposed rule is also prohibitively difficult to implement and monitor for compliance. The agencies themselves note that a mortgage loan may be transferred several times prior to securitization, and therefore the originator may not know when, or if, it is required to contribute to the risk retention account. With the inability to reliably predict and budget the timing, amount or even existence of the contribution, the originator is left guessing about when or whether it will incur a substantial financial obligation. Moreover, state and federal auditors will be required to trace each and every securitized loan through many levels of transfer in order to locate the identity of the originator; and then the audit must trace that originator in order to examine its compliance with the risk retention rules. This will unduly complicate and delay all audits, whether routine or otherwise.

Likewise, due to the multiple transfers of the loan and resulting trail, originators have no practical way to determine whether a securitized loan has been paid off, refinanced, released, or otherwise terminated. Thus, the originator may be left carrying a significant financial burden on a loan that no longer requires compliance with the risk retention rule.

The proposed rule requires securitizers to calculate the originator’s contribution based upon its overall percentage of principal in the securitized pool, rather than on loan-by-loan basis. Thus, if an originator has 25% of the pool, it must contribute 25% of the total risk retention amount required of all loans in the pool. This method does not fairly calculate the originator’s actual contribution to any pool of loans, and is especially troublesome in light of the fact that the originator does not share in the highly lucrative securitization process but must nevertheless help bear the financial burden of the securitizer. Indeed, the originator is not in control of which loans are placed in the securitized pool and therefore a responsible lender may find its loans grouped with–and responsible for–loans written by less responsible lenders. This, in effect, requires the responsible lender to insure the loans of imprudent lenders, guaranteeing a more punitive result. The proposed rule should require that the originator be responsible for retaining risk only on those loans in which it had a hand in creating.
Because community lenders are bound by the demands of their investors/securitizers, and because they have no voice in the methods of compliance with risk retention rules, and because they have no control when selling the loan servicing released, and because the cost of complying with risk retention is prohibitively high, CMLA proposes that community lenders and originators be exempted from the definition of "originator" under the Proposed Rule.

6. JUMBO MARKET
Washington often pays less heed to the marketplaces where housing costs are higher than middle-America. We find that this assumption, that high cost housing relates only to wealthy individuals, does not properly reflect the realities in states such as California, Florida, New York, Washington, and other areas where high-cost housing prevails. Also, CMLA does not favor the assumption that those with higher incomes need markedly less public policy concern. All housing markets are interconnected in terms of economic growth.

High cost housing often falls into what is known in the industry as the “Jumbo” market. At present, minor accommodations for some high cost markets have been made by Fannie Mae, Freddie Mac, the VA and FHA through loan products known as “Conforming Jumbo” loans. Outside the loan limits established by these agencies, there are “Large-Balance” Jumbo loans (collectively referred to as “Jumbo Loans”).

CMLA views both the “Conforming” and “Large-Balanced” Jumbo loans as crucial to the health of the overall real estate marketplace, not to mention the economic growth in several states with the highest population. In addition, certain states have sufficient concentrations of these Conforming and Large-Balance jumbo mortgages which, if we get this part wrong, will mean that these states will suffer disproportionately.

The QRM’s requirements in the conforming market make even less sense for Jumbo loans. Key factors that are not considered include:

- Allowances for “net disposable income”
- Rigid DTI’s that do not consider the overall earnings
- Traditionally lower Loan-to-Value (LTV) ratios

By way of example, a borrower putting 50-60% down, who also has a backend DTI of 38 percent, would not be considered eligible for a QRM mortgage. The borrower would pay markedly higher costs, yet the overall risk inherent in the transaction is obviously lower. Congress did not intend for this outcome – because this sort of Jumbo Loan did not cause the meltdown.

CMLA’s concern is the higher costs of the QRM rule, combined with the certain-to-come reduction in conforming loans by Fannie and Freddie, will piggyback too many incremental costs on the Jumbo market given the ongoing fragility, and set back the economies of some of the nation’s largest states.

7. THE THREE-PERCENT RULE
The 3% rule goes well beyond the QRM and retained risk rule, but bears comment here. CMLA remains concerned that this cap has been drawn so widely that it conforms not at all to the basic mechanics of routine, safe and sound lending principles. For example, required title charges, regulated by states and thus highly predictable and not alleged to be abusive, make no sense under this cap.

CMLA recognizes that regulators may feel bound by statute and we are working with legislators to correct this problem. But should legislation fail to move in a timely manner, regulators must use all available means, within the law, to lessen the harmful impact of a three-percent provision that will not work in the marketplace.

8. RENTAL MARKETS: A CAUTIONARY NOTE
CMLA understands that in the aftermath of a mortgage bubble, policy circles in Washington may conclude that the original goal (more homeownership) may have been overly broad and poorly executed, even though the performance of conservatively-written mortgages has held up relatively well. For the sake of argument, we concede that homeownership is not for everyone.

But in the rush to tomorrow, many have over-emphasized the advantages to renting and failed to address the many disadvantages of an artificially stimulated rental market. The CMLA recalls one of the dominant housing themes of the 1980s: the ever-increasing rent situation facing many working American families. A tight rental market and vigorous
economic growth combined to force many families out of their rental housing or to pay an extremely large percentage of disposable income towards that housing. If public policy sends significantly more people to rental housing stock, and economic growth resumes, we will see the same situation again. Families will be forced to choose between paying utilities or the rent check, or choose between schooling costs and rent, and some will be forced out of their home into an uncertain future. In the rush to solve yesterday’s problem, we are likely to bring back last month’s equally vexing problem.

Any resurgence of inflation will only compound the problem; inflation of just 4% per year will double a family’s rent over the course of 18 years, the time during which a child is reared and sent to college. With a conservative mortgage, homeownership costs remain relatively fixed beyond taxes and some repair work.

It bears repeating that with well-underwritten, conservative home loan products, families can control their own destiny of stable homeownership and all of the costs associated, all the while building home equity. Neither of these is possible for renters, and the bias still ought to remain ... those that can own and want to own, should own with the help of plain vanilla lending products.

Thank you for your attention and the work that you do to make capital and mortgage markets stable, fair, and protect taxpayers. CMLA simply asks that the worthwhile policy objectives above be balanced with sustainable growth, one that will help move the country forward and continue to provide economic opportunity and a secure future to families that prove capable of making homeownership work. We are hoping to find a common, middle ground. CMLA looks forward to working with you as this QRM rule moves forward.

Submitted on behalf of the Community Mortgage Lenders of America:

Sincerely,

For the Board of Directors

About Community Mortgage Lenders of America

The Community Mortgage Lenders of America, Inc. (“CMLA) represents over 80 of the leading independent lenders in the country, generating an annual volume of over $100 billion in mortgage loans. CMLA was founded out of concern that emerging federal policies threaten to severely diminish community based lending, while increasing concentration to the detriment of competition and consumers. CMLA members include community banks and non-banks. Members survived the mortgage crisis because of close attention to prudent underwriting standards and a strong commitment to sound lending. But now, lenders who form the backbone of community based lending find themselves facing extinction due to misguided policies that punish lenders who neither created nor marketed the loan products that caused the mortgage crisis.

Contact:

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The Community Mortgage Lenders of America (CMLA)
978.239.5612

Rob Zimmer
External Affairs
202.494.4551
CMLA QRM Retention Chart - 5% Risk

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## CMLA QRM Retention Chart - 3% Risk

### Annual % Increase in Originations

- 5%

### Annual Runoff %

- 15.0%

### Credit Risk % Required

- 3.0%

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# CMLA QRM Retention Chart - 2.5% Risk

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<td>2,804,386,448</td>
<td>70,109,661</td>
</tr>
<tr>
<td>Year 10</td>
<td>2,804,386,448</td>
<td>775,664,108</td>
<td>537,007,583</td>
<td>3,043,042,973</td>
<td>76,076,074</td>
</tr>
</tbody>
</table>

- **Annual % Increase in Originations**: 5%
- **Annual Runoff %**: 15.0%
- **Credit Risk % Required**: 2.5%
APPENDIX B

RESPONSIBILITY OF RISK
In order to clarify the longer-term roles in real estate finance it is important to understand the following roles as it is compared to the ATTACHED "Mortgage Cycle":

Originator/Lender (OL): The OL is the party that originates the loan, funds the closing of the loan and typically sells the loan (or a pool of loans) servicing released to a conduit (Bank of America, Wells Fargo Bank, Citibank, Chase, etc.) or the Aggregator/Seller/Servicer.

Portfolio Lender (PL): The PL is typically a financial institution that is the OL, but rather than selling the loan servicing released into the secondary market, holds the loan on its balance sheet as a financial asset of the institution.

Seller/Servicer (SS): The SS may be the OL but will aggregate loans on a large scale, will retain the servicing rights and either sells the pools directly to Fannie Mae, Freddie Mac, Ginnie Mae or becomes the sponsor / securitizer and mortgage backed security issuer.

Loan Servicer (LS): The LS typically does not own the mortgage loan, only the rights to service the loan. Mortgage Loan Servicers also are in the business of purchasing servicing right in the secondary market. The LS is in full control over the long-term performance of the loan's it services. Activities such as long-term loan performance, delinquency monitoring, payment collections or foreclosures are all managed by the servicer.

NOTE: As indicated within the body of the letter, many small lenders are non-depositories or small depositories with expansive liquidity constraints; both utilize their existing capital to grow local economies and are helping these local areas exit the recession. Furthermore, the OLs and the PLs have existing loan repurchase requirements with their third-party investors - ones that require a 100% loan amount repurchase in the event the loan was not underwritten within the guidelines, among other contingencies.

Without an exemption, these community-based lenders will be driven from the marketplace, thus restricting or eliminating the flow of funds in many markets and increasing the cost of what other funding may be left available to borrowers that would otherwise be served by these lenders. If an exemption cannot occur, some form of protection for the OLs and PLs must exist.

We believe that the Proposed Rule does not clearly differentiate, nor does it address allocation of, risk for, by and between these parties. We believe the risk retention rules should be clearly defined and be eliminated for Originator/Lenders and Portfolio Lenders - ones separate and apart from the Seller/Servicer and Loan Servicer.
Mortgage Cycle

Origination

Processing

Underwriting

Closing

Warehousing

Secondary Market

Delivery
Do you know the “lingo”?

If you feel like we speak a foreign language sometimes, here is a “mortgage lender-to-English” glossary to help you understand the many acronyms that populate our speech:

**Federal Agencies:**

FNMA (Fannie Mae) Federal National Mortgage Assoc. - Fannie Mae is a government-sponsored enterprise (GSE) chartered by Congress with a mission to provide liquidity, stability and affordability to the U.S. housing and mortgage markets.

FHLMC (Freddie Mac) Federal National Home Loan Corp. - participates in the secondary mortgage market by purchasing mortgage loans and mortgage-related securities for investment and by issuing guaranteed mortgage-related securities

FHA Federal Housing Administration - insures loans with only 3.5% down to all qualified home purchasers.

HUD Department of Housing and Urban Development - regulates Fannie Mae and Ginnie Mae

USDA United States Dept of Agriculture - Insures Rural housing loans, to borrowers within the area median income range and properties in designated rural areas.

GNMA (Ginnie Mae) Government National Mortgage Assoc. - provides sources of funds for residential mortgages, insured or guaranteed by FHA or VA.

CFPB Consumer Financial Protection Bureau, part of the Dodd-Frank Financial Reform Bill

**Important Mortgage-related Acronyms:**

APR Annual Percentage Rate - An interest rate reflecting the cost of a mortgage as a yearly rate. This rate is likely to be higher than the stated note rate or advertised rate on the mortgage, because it takes into account points and other credit (closing) costs.

CRV Certificate of Reasonable Value - An appraisal that has been performed on a property that is being paid for a VA loan. After the property has been appraised, the Veterans Administration issues a CRV.

DTI Debt to Income - the ratio, expressed as a percentage, which results when a borrower's monthly payment obligation on long-term debts is divided by his or her gross monthly income.

GFE Good Faith Estimate - An estimate of charges which a borrower is likely to incur in connection with a loan closing.

LQI Loan Quality Initiative - Quality control initiative created by Fannie Mae (effective June 1, 2010) to insure that information provided at loan application is verified to be accurate at the time of closing.

LTV Loan-To-Value Ratio - The relationship between the amount of the mortgage loan and the appraised value of the property expressed as a percentage. A LTV ratio of 90 means that a borrower is borrowing 90% of the value of the property and paying 10% as a down payment.

MIP Mortgage Insurance Premium - The amount paid by a mortgagor for mortgage insurance to the Federal Housing Administration (FHA). The “upfront” cost is generally financed in the mortgage, and the monthly amount is required for either 5 years, or until there is equity of 22%.

PITI (aka The Clarity Builder) - Principal, Interest, Taxes, and Insurance, it is a combined mortgage,-tax,-and-insurance payment, the monthly "bottom line" of your mortgage payment

PMI Private Mortgage Insurance - Insurance that lenders require from most homebuyers who obtain loans that are more than 80 percent of their new home's value which covers the lender against losses incurred as a result of a default on a home loan.

PUD Planned Unit Development - A type of ownership where individuals actually own the building or unit they reside in, but shared areas are owned jointly with the other members of the development or established association.