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HOMESIGHT
Creating Homeowners...
...Building Communities

October 30, 2013

Legislation and Regulatory Affairs Division
Office of the Comptroller of the Currency
400 7th Street, SW
Suite 3E-218, Mail Stop 9W-11
Washington, DC 20219
Docket Number OCC-2013-0010

Elizabeth M. Murphy
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549
File Number S7-14-11

Robert deV. Frierson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Docket No. R--1411

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA43
Federal Housing Finance Agency
Constitution Center (OGC) 8th Floor
400 7th Street, SW
Washington, DC 20024

Robert E. Feldman, Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
RIN 3064-AD74

Regulations Division
Office of General Counsel
Department of Housing and Urban Development
451 7th Street, SW, Room 10276
Washington, DC 20410 -0500

Re: Credit Risk Retention

Ladies and Gentlemen:

We are pleased to have this opportunity to comment on proposed rules for risk retention under Section 941 of the Dodd-Frank Act released by six regulatory Agencies (the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Securities and Exchange Commission, the Federal Housing Finance Agency and the U.S. Department of Housing and Urban Development) on August 22, 2013, with a comment period ending on October 30, 2013. In this comment letter, we focus on only one aspect of the proposal, the Qualified Residential Mortgage (QRM) definition for residential mortgage backed securities.

HomeSight is a non-profit community development corporation whose mission is "building strong, vibrant communities through homeownership, economic development, and neighborhood revitalization".

In the past 20 years, HomeSight has built over 400 homes and created over 1,400 new first time homeowners. HomeSight is a HUD certified counseling agency, a U.S. Dept. of Treasury certified Community Development Financial Institution (CDFI) with a loan fund of $20 million in purchase assistance mortgages, a chartered member of NeighborWorks America, and the first non-profit to become a Washington State licensed mortgage broker in 2003.

Main Points

HomeSight supports the re-proposed rule's primary recommendation to incorporate the Qualified Mortgage (QM) standard to define the Qualified Residential Mortgage (QRM).

This approach achieves the twin objectives of protecting the marketplace while ensuring borrowers have access to safe mortgages. Investors will remain confident they can rely on the quality of mortgages underlying securitizations and creditworthy borrowers will be able to obtain access to conventional financing for safe, sustainable mortgages. At the same time, it also assures that loans with the highest risk – those with the product features explicitly excluded by QM – will be subject to the risk retention rules for asset backed securities. In releasing the re-proposed rule, regulators expressed valid concerns that establishing diverse standards for QM and QRM loans could result in an increase in complexity, regulatory burden and compliance costs that will be passed on to borrowers in the form of higher interest rates and restrictive credit standards.

HomeSight strongly opposes the alternative "QM-Plus" approach in the proposed rule, which would require borrowers to make a 30 percent down payment to obtain a QRM loan. Such a restriction along with unduly difficult credit standards will restrict access to mortgage credit for far too many creditworthy borrowers.

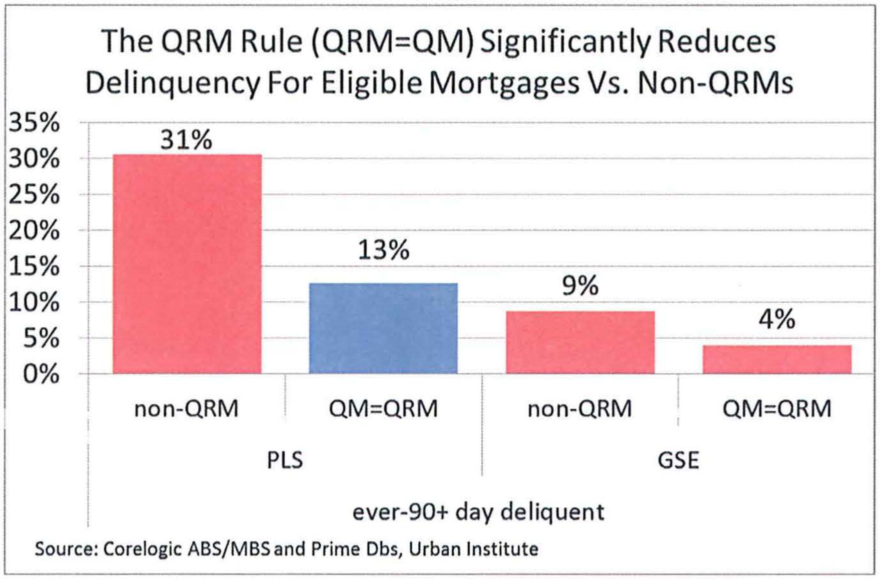
Background

In August 2013, the six Federal Regulators published a revised proposed rule that would equate QRM with the soon-to-be implemented "ability-to-repay" Qualified Mortgage (QM) mortgage and underwriting standard issued by the CFPB.

Under the QM standard, which was finalized earlier this year and will take effect in 2014, loans must meet product features and underwriting standards to qualify. Borrowers must document the income used to qualify for a loan, and creditors must verify this and other important borrower qualifications. Borrowers cannot have debt-to-income ratios above 43 percent (unless it meets Fannie Mae, Freddie Mac, or Federal Housing Administration underwriting criteria for seven years or until GSE reform). Loans with risky product features most closely associated with the housing crisis such as negative amortization, interest-only payment features, or loans with amortizations longer than 30 years are excluded from the QM definition.

In synchronizing both definitions, the revised rule encourages safe and financially prudent mortgage financing while also ensuring creditworthy homebuyers have access to safe mortgage financing with lower risk of default.

By equating the QRM with the QM, regulators have provided clear rules that allow for robust markets that meet the needs of creditworthy borrowers in a safe and sound manner. The new proposed QRM will reduce the risk of default and delinquency as illustrated below.



An analysis by researchers at the Urban Institute[1] of mortgages in private label securities originated in or prior to 2013, the "ever 90-day delinquency rate" (loans that have ever been 90 days or more delinquent) for all loans that did not meet the re-proposed QRM standard was 30.6 percent.

The delinquency rate for purchase and refinance loans that met the new QRM proposal was nearly two thirds lower at 12.6 percent[2]. Loans purchased by Freddie Mac and Fannie Mae that met the re-proposed QRM standard had default rates of 4.1 percent as compared to 8.7 percent for mortgages that did not qualify for QM status. The study's authors point out that using an alternative measure of performance such as the 180-day delinquency rate or a measure of default would more accurately portray borrower behavior. The delinquency rates for PLS and GSE mortgages originated over this same period that fell 180 days or more delinquent were 7.87% and 1.43%, respectively. Furthermore, as pointed out by researchers at the UNC Center for Community Capital, several recent studies of performance for QM and non-QM loans vary in scope by time frame and mortgage features included, but all indicate that the QM standard significantly reduces risk, while providing broader access to credit than a QRM that includes a down payment requirement.[3]

The alignment of the QM definition with the QRM definition results in a construct that excludes risky product features and low or no-documentation lending that are closely correlated with increased probability of default. Appropriately, the definition of QM is not limited based on down payment. Although data show that the risk of default increases as down payments decrease, this does not necessitate the inclusion of down payment in QRM. Much like the private market operates today, investors can choose to package QRMs based on down payments if they choose to. Aligning QRM

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[1] See blog post by Laurie Goodman and Ellen Seidman and Jun Zhu. "QRM, Alternative QRM: Loan default rates." http://blog.metrotrends.org/2013/10/qrm-alternative-qrm-loan-default-rates/?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+MetrotrendsBlog+%28MetroTrends+Blog%29

[2] To account for prepayment penalties, the authors of the Urban Institute's study filtered from their QM definition mortgages with prepayment penalties incurred more than three years after origination, but they were unable to screen those mortgages with penalties that exceeded the limit of 2 percent of the amount prepaid. Likewise, data limitations precluded their ability to screen hybrid ARM products for a maximum rate reset in the first 5 years. Mortgages with these features may have been screened from the QM definition for other reasons, but some were likely included and thus estimates for delinquency rates should be considered conservative.

[3] Reid, Carolina and Roberto Quertia. "Risk, Access, and the QRM Reproposal." UNC Center for Community Capital. September 2013.

with QM allows market participants to assess and allocate risk within boundaries that will ensure stability to the market and a wide degree of credit access.

Recent market trends show that the QRM rule is unlikely to lead to a flood of zero down payment loans, as some critics of the proposed rule have suggested. Creditors currently are requiring borrowers to put significant amounts down in order to qualify for a loan before any risk retention rules are in effect yet. Both Fannie Mae and Freddie Mac recently raised their minimum down payments for most loans to five percent, and charge significant premiums and require mortgage insurance for those with down payments below 20 percent. The inclusion of a down payment requirement in the QRM rule is, therefore, unnecessary. Nonetheless, if it were included it would set a rigid standard not amenable to adjustment by individual securitizers based on experience and market trends. Moreover, it would give the government's imprimatur to an underwriting factor. That was not Congress's intent and would exclude far too many borrowers from QRM loans. As Laurie Goodman of the Urban Institute states, "The default rate for 95 to 97 percent LTV mortgages is only slightly higher than for 90 to 95 LTV mortgages, and the default rate for high FICO loans with 95 to 97 LTV ratios is *lower* than the default rate for low FICO loans with 90 to 95 percent LTV ratios. . . . For mortgages with an LTV ratio above 80 percent, credit scores are a better predictor of default rates than LTV ratios."[4]

Homeownership Education and Counseling

Homeownership is the single largest source of wealth for most Americans. Academics have shown that homeownership is associated with improved child education, higher neighborhood real estate values, increased savings and even reduced teen pregnancy rates.[5] Most benefits of homeownership derive from stability: people become homeowners when they have less need to move frequently, and when they have sufficient income and assets to invest in their home and ultimately in their community. Unfortunately, today many borrowers are under great stress as adjustable mortgages increase and real estate scams proliferate. The benefits of homeownership can be lost to those who cannot afford expensive repairs or higher interest rates.

Homeownership education and counseling programs assist borrowers to make good choices in finding decent affordable homes. Qualified counseling programs cover topics ranging from understanding credit and savings; shopping for a mortgage; housing discrimination; home maintenance; and predatory lending. They encourage buyers to get vendors (attorneys, inspectors) who work for them rather than for the seller or broker, and they alert home buyers to common scams in the market. They provide the homeowners with a thorough and unbiased review of their financial situation and the types of mortgage products that may best suit their needs. Quality counseling can provide tools to determine whether homeownership is an appropriate housing option in the first place.

Pre-purchase education and counseling has been proven to help reduce mortgage delinquencies among homebuyers. Several studies that examined the effect of homeownership education and counseling on default rates found lower delinquency and default rates. One study of Freddie Mac's

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[4] See Laurie Goodman and Taz George, Fannie Mae reduces its max LTV to 95: Does the data support the move?, The Urban Institute, MetroTrends Blog (September 24, 2013) (available at http://blog.metrotrends.org/2013/09/fannie-mae-reduces-max-ltv-95-data-support-move/).

[5] Dietz, Robert D. "The Social Consequences of Homeownership" (Ohio State University: 2003).

affordable lending program provides direct empirical evidence of the service's value, concluding that some types of pre-purchase education and counseling have a significant impact on mortgage delinquency rates. Based on a group of 34,000 loans from Freddie Mac's portfolio that received this service, 90-day delinquency rates were lowered by 19% for educated borrowers overall. Borrowers who received individual counseling experienced a 34% reduction in delinquency rates, while borrowers who received classroom and home-study education obtained 26% and 21% reductions in delinquency. [6]

As a HUD approved Housing Counseling Agency, HomeSight believes that homeownership education and counseling is an equally important factor in the underwriting process. HomeSight encourages you to consider incorporating homebuyer education and counseling into the final rule, where applicable.

Conclusion

Strong and sustainable national economic growth will depend on creating the right conditions needed for a housing recovery. We applaud your monumental efforts to date, and for your equally strong showing of leadership in re-issuing this very important rule.

Thank you for your consideration of these comments and for your efforts on behalf of consumers and the mortgage markets. Please feel free to contact us, for any clarification of these comments.

Sincerely,

Tony To
Executive Director

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[6] Harad, Abdighani and Peter Zorn, "A Little Knowledge is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Counseling" (Harvard Joint Center for Housing Studies, 2003).