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

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

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

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

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

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

Re: Proposed Credit Risk Retention and Qualified Residential Mortgage Rule

To the OCC, FDIC, FHFA, Board of Governors of the Federal Reserve, SEC, and HUD:

The Greenlining Institute thanks 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 ("the Agencies") for the opportunity to comment on the proposed rules for risk retention under Section 941 of the Dodd-Frank Act. Our comment concerns the Qualified Residential Mortgage (QRM) definition for residential mortgage backed securities.

In the proposed rule, the Agencies recommend that QRM share the same definition as the Consumer Financial Protection Bureau (CFPB)'s Qualified Mortgage (QM). Among other things, the Agencies requested comment on a more restrictive, alternative QRM definition ("QRM-Plus").

Defining QRM will have wide-reaching consequences, including determining the types of mortgages that will be available to future borrowers. For reasons outlined below, Greenlining supports the Agencies recommendation that QRM share the same definition as QM, and opposes the alternative QRM-Plus.

QM=QRM Accomplishes the Goal of Aligning the Interests of Securitizers, Consumers, and Investors

The Dodd-Frank Act requires lenders that securitize mortgage loans to retain 5 percent of the credit risk, unless the mortgage is a QRM. The purpose is to create strong incentives for responsible lending and borrowing and, in turn, discourage excessive risk taking. Congress intended that the risk retention requirement force securitizers to have "skin in the game," thereby aligning the interests of securitizers, investors, and consumers. We believe that having QRM equal QM will come closest to achieving this goal. Having determined that QM are safe for consumers, it follows that "QRM=QM" should also be safe for investors.

QM is intended to ensure that lenders only make loans to borrowers who have the ability to repay the loan. And indeed, QM have been found to have significantly lower default rates than non-QM. In comparing mortgages that go 90+ days delinquent and those that terminated, there is in fact a significant difference between QM and non-QM defaults. The default rates for loans that met the QM requirements are substantially lower than for those that did not.[1]

QRM-Plus, on the other hand, does achieve heightened risk retention standards, but at the cost of overly restricting access. The Urban Institute studied default rates for private label securities (PLS), Freddie loan-level data, and CoreLogic Prime Servicing data for three separate periods: 2005 and earlier, 2006–2008, and 2009 and later. One major finding was that any enthusiasm for QRM-Plus' low default rates must be tempered in light of so few mortgages actually qualifying.[2] (This conclusion as reached even with the caveat that a 90+ days delinquent standard overestimates the benefits of a restrictive definition of QRM.)

We therefore consider that the risk management benefits of a QRM-Plus rule are outweighed by its very significant access restrictions. A streamlined definition has additional secondary benefits of harmonizing the two rules, thereby reducing compliance costs for lenders as well as reducing investor uncertainty.

The Overly Narrow QRM-Plus Definition Threatens Underserved Consumers

QM already requires full documentation, no interest-only or balloon payments, no negative amortization, a term of 360 months or less, back-end (all-inclusive) debt-to-income ratio (DTI)

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[1] Urban Institute, "QRM, Alternative QRM: Loan default rates," October 17, 2013. Accessed at http://blog.metrotrends.org/2013/10/qrm-alternative-qrm-loan-default-rates/ on October 29, 2013.

[2] Urban Institute, "QRM vs. Alternative QRM: Quantifying the Comparison," http://blog.metrotrends.org/2013/10/qrm-vs-alternative-qrm-quantifying-comparison/ on October 29, 2013.

of 43 percent or less, and prepayment penalties of three years or less. On top of that, QRM-Plus narrows the definition further: the loan must be QM and have a loan-to-value (LTV) ratio of 70 percent or less; it must be secured by an owner-occupied property; the borrower must have a very good credit history, meaning not currently 30 days past due on any debt, not 60 days past due on any debt in the past 24 months, and no bankruptcy or foreclosure in the past 36 months; and first liens only, with the first lien disqualified if there is a second lien on a purchase loan.

These requirements will unnecessarily push many potential borrowers out of the mortgage market. What's more, these requirements are not necessary to the safety and soundness of the market. The potential borrowers who will take the hardest hit are first-time homebuyers, especially those of color and low- to moderate income individuals. These consumers are critically needed to help drive the housing market's recovery.

QRM-Plus' 30 Percent Down Payment Requirement Will Hurt Diverse and Low- To Moderate-Income Consumers

QRM-Plus includes a 30 percent down payment requirement. Saving the necessary down payment has always been the principal obstacle for first-time homebuyers. Of the three main barriers to homeownership (insufficient income, other qualifications/underwriting standards, high minimum down payment requirements), lack of assets to cover down payment is often the biggest challenge.

This is especially true for homebuyers of color. For example, white families buy homes an average of eight years earlier than black families because of greater access to familial funding sources such as parental assistance or inheritance. [3] Many other borrowers of color face similar challenges. This QRM would essentially exclude borrowers of color from the most competitive loans. On top of that, it would likely increase costs for borrowers as lenders pass on QRM-Plus costs.

Rather than high down payment requirements, responsible lending standards and ensuring a borrower's ability to repay have the greatest impact on reducing lender risk.

Conclusion

Greenlining works to bring the American Dream within reach of everyone, regardless of race or zip code. Our coalition is comprised of over 40 national and statewide organizations, including

[3] Brandeis Institute on Assets and Social Policy, "The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide." Accessed at http://iasp.brandeis.edu/pdfs/Author/shapiro-thomas-m/racialwealthgapbrief.pdf on October 29, 2013.

more than a dozen community-based organizations. We pursue a multi-issue platform of racial and economic justice to promote America's future prosperity. Today, the majority of children born in the United States are non-white. Because the majority of the next generation of Americans will be people of color, America will prosper only if communities of color prosper.

We comment from the perspective of promoting the interests of America's new majority. To that end, we believe that the proposed QRM rule will be strengthened by incorporating the above recommendations. We would like to thank the Agencies again for this opportunity to share our perspective on the proposed rule.

Sincerely,

Sasha Werblin
Economic Equity Director
The Greenlining Institute

Aysha Pamukcu
Economic Equity Policy Counsel
The Greenlining Institute