COALITION FOR SENSIBLE HOUSING POLICY

Proposed QRM Rule's 20 Percent Down Payment Requirement Will Mean New Costs for Millions of Homebuyers, Minimal Reduction in Defaults

The 20 percent down payment requirement of the proposed Qualified Residential Mortgage (QRM) rule compromises the intent of the QRM provision in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which is to assure clear alignment of interests between consumers, creditors, and investors without imposing unreasonable barriers to financing of sustainable mortgages. **While the difference in the frequency of the default rate of standard, fully documented loans originated between 2002 – 2008 with a five percent down payment compared to 10 percent or 20 percent down is negligible (less than one percent), the number of homebuyers that would face new costs is significant – an average of 22 percent of the more than 30 million mortgages analyzed.**

As narrowly drawn, the QRM rule ignores compelling data that demonstrate sound underwriting and product features, like documentation of income and type of mortgage, have a larger impact on reducing default rates than high down payment.

IMPACT OF HIGH DOWN PAYMENTS ON REDUCING DEFAULT: LESS THAN 1%

- **10% Down Payment: 0.2 – 0.3% Fewer Defaults** - Moving from a five percent to 10 percent down payment on loans that already meet the sample QRM standard reduced the overall default rate by an average of only two- or three-tenths of one percent (0.2 – 0.3 percent).

- **20% Down Payment: 0.8% Fewer Defaults -** Moving from a five percent to a 20 percent down payment on loans that meet the sample QRM standard reduces default rate by only eight-tenths of one percent (0.8 percent).

SAMPLE QRM ANALYSIS: IMPACT OF RAISING DOWN PAYMENTS REQUIREMENTS ON DEFAULT RATES AND BORROWER ELIGIBILITY

Origination Year	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Reduction in default rate* by increasing QRM down payment **from 5% to 10%**	0.2%	0.1%	0.3%	0.3%	0.2%	0.5%	0.2%
Proportion of borrowers **not eligible** for QRM at 10% Down	7.6%	6.6%	9.0%	8.4%	10.9%	14.7%	8.4%
Reduction in default rate* by increasing QRM down payment **from 5% to 20%**	0.6%	0.3%	0.7%	0.8%	0.8%	1.6%	0.6%
Proportion of borrowers **not eligible** for QRM at 20% Down	19.2%	16.7%	23.0%	22.9%	25.2%	28.2%	20.7%

* Default = 90 or more days delinquent, plus in process of foreclosure, plus loans foreclosed.

Source: Data from CoreLogic, Inc. of over 30 million mortgages originated between 2002 and 2008. Analysis by Vertical Capital Solutions for Genworth Financial and the Community Mortgage Banking Project. Table shows the default performance of a sample QRM definition based on the following attributes: Fully documented income and assets; fixed-rate loans, or 7-year or greater initial period ARMs; no negative amortization; no interest only loans; no balloon payments; 41percent total debt-to-income ratio; mortgage insurance on loans with 80 percent or greater loan-to-value ratios; and maturities no greater than 30 years. Default performance is measured by origination year through the end of 2010.

Impact of High Down Payments on Ability for Current Homeowners to Refinance

- Nearly 25 million current homeowners would be denied access to a lower rate QRM to refinance their home because they do not currently have 25 percent equity in their homes.

- Even with a five percent minimum equity standard, almost 14 million existing homeowners – many with solid credit records – will be unable to obtain a QRM and avoid the costly new fees associated with Dodd-Frank risk retention.

Equity Position of U.S. Homeowners with Mortgages

47.9 million U.S. homeowners with mortgages:	**30% equity**	**25% equity**	**20% equity**	**10% equity**	**5% equity**
# with less than…	27.5 million	24.8 million	21.9 million	16.3 million	13.5 million
% with less than…	57%	52%	46%	34%	28%

Source: Community Mortgage Banking Project; based on data from CoreLogic Inc.

Other aspects of the proposal – such as the proposed debt-to-income ratios and credit standards – are also set at levels that will raise unnecessary barriers for creditworthy borrowers seeking the lower rates and preferred product features of the QRM. With respect to credit availability for high loan-to-value lending, the statute specifically recommends that the regulators consider for eligibility for the QRM standard, loans that are covered at the time of origination by mortgage insurance or other credit enhancements, to the extent these protections reduce the risk of default.

The QRM should be redesigned to encourage sound lending behaviors that reduce the risk of future defaults without harming responsible borrowers and lenders.

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