

United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP

WASHINGTON, DC 20510-6350

February 16, 2011

The Honorable Shaun Donovan
Secretary of Housing and Urban Development
Department of Housing and Urban Development
451 7th Street SW
Washington, DC 20410

The Honorable Sheila Bair
Chairman, Federal Deposit Insurance U.S.
Corporation
550 17th Street NW
Washington, DC 20429

The Honorable Ben Bernanke
Chairman
Board of Governors of the Federal Reserve
System
2001 C Street NW
Washington, DC 20001

The Honorable Mary Schapiro
Chairman
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Edward DeMarco
Acting Director
Federal Housing Finance Agency
1700 G Street NW
4th Floor
Washington, DC 20552

The Honorable John Walsh
Acting Comptroller
Office of the Comptroller of the Currency
1775 Duke Street
Alexandria, VA 22314

Dear Secretary Donovan, Chairman Bair, Chairman Bernanke, Chairman Schapiro, and Messrs. DeMarco and Walsh,

We are writing regarding the current rulemaking to implement the risk retention provisions of Section 941 of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*. We recognize the complexity of the issues involved in writing the risk retention rules. However, we are concerned that a number of issues outside of the legislative scope and intent might unnecessarily slow the rulemaking process. We would like to take this opportunity to clarify our legislative intent. Most importantly, we directed the Federal banking agencies, the Secretary of Housing and Urban Development, and the Director of the Federal Housing Finance Agency to jointly define Qualified Residential Mortgage (QRM) by "taking into consideration underwriting and product features that historical loan performance data indicate result in a lower risk of default" (PL 111-203, Sec. 941(b)).

We are concerned that efforts to impose a high down payment requirement for any mortgage to meet the QRM exemption standard would be inconsistent with our legislative intent. As the authors of the QRM provision, we can assure you that, although there was discussion about whether the QRM should have a minimum down payment, in negotiations during the drafting of our provision we intentionally omitted such a requirement.

The purpose of the QRM is to support a housing recovery by creating a robust underwriting framework that will attract private capital to support responsible lending and borrowing. In developing the QRM framework, we recognized the importance of establishing a framework that would allow creditworthy first-time homebuyers to have access to the benefits of loans meeting the QRM standard. We also recognized that homeowners in the hardest hit housing markets have lost extraordinary amounts of equity as result of plummeting home prices. For all of these families, a high down payment is simply out of reach. A QRM with a high down payment requirement would force them to postpone buying or refinancing a home for years, or to take on mortgages at much higher interest rates. Either outcome undermines efforts to restore our shaky housing market.

Consequently, the QRM framework set forth in the statute specifically contemplates the inclusion of low-down payment loans, provided they have mortgage insurance or other forms of credit enhancement, to the extent such insurance or credit enhancement reduces the risk of default. We strongly urge your agencies to adopt a QRM framework that follows the statutory framework and supports a housing recovery by ensuring that all financially responsible families will have access to the lower interest rates and borrower protections afforded by the QRM.

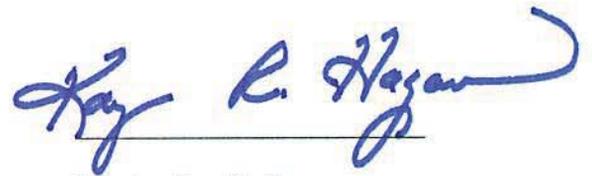
The risk retention rules are challenging enough to write without the inclusion of extraneous issues. The QRM provisions of Section 941 are clear in their intent and provide the regulators with an explicit framework to follow. We strongly urge you to adhere to that framework. It is important that these rules be issued soon so that the lenders, investors, housing groups and consumers have ample time to provide extensive comment.

We look forward to reviewing the proposed rule for risk retention and the QRM. These rules can have a significant impact on the future of our housing finance system for years to come.

Sincerely,



Senator Mary L. Landrieu



Senator Kay R. Hagan



Senator Johnny Isakson

cc: The Honorable Timothy Geithner
Secretary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220