St. Louis Equal Housing and Community Reinvestment Alliance
c/o EHOC · 1027 S. Vandeventer Avenue, 6th floor · St. Louis, MO · 63110 · www.slehcra.org

MEMBER ORGANIZATIONS

Center for the Acceleration of African American Business

Community Action Agency of St. Louis County

Community Resource Development Organization

Citizens Coalition to Fight Eminent Domain Abuse

Human Development Corporation

Justine Petersen

Lemay Housing Partnership

Metropolitan St. Louis Equal Housing Opportunity Council

Missourians Organizing for Reform and Empowerment

MoKan

NAACP St. Louis

North County Churches Uniting for Racial Harmony and Justice

Ready, Aim, Advocate! Committee

St. Louis Community Land Trust

Union Sarah Community Corporation

June 27, 2011

Federal Deposit Insurance Corporation
Via email: Comments@FDIC.gov

RE: RIN 3064-AD74

To Whom It May Concern:

The St. Louis Equal Housing and Community Reinvestment Alliance (SLEHCRA) urges you to alter the proposed Qualified Residential Mortgage (QRM) rule in order to preserve fair and equal access to housing for thousands of creditworthy Americans who lack the savings required for large down payments. Particularly, the proposed rule will significantly and adversely affect the capacity of potential homebuyers of low- to moderate-incomes and minority backgrounds to become homeowners.

SLEHCRA is a coalition working in St. Louis to increase investment in low-income and minority communities by ensuring that banks are meeting their obligations under the Community Reinvestment Act (CRA) and fair lending laws. We are concerned with the proposed QRM rules and the exclusionary effects such rule would have in providing equal access to credit for all members of our community.

Questionable lending practices (such as selling predatory loans with inadequate explanation to inexperienced borrowers), accompanied by many institutions' lack of direct exposure to financial consequences for high default rates, fueled the subprime crisis – not loans with low down payments. Accordingly, Congress imposed a 5 percent risk retention requirement through the Dodd-Frank Wall Street Reform and Consumer Protection Act to require lending institutions to keep some "skin in the game", instead of mandating higher down payments. In fact, the Federal Housing Finance Administration (FHFA) states that requirements regulating loan product types, such as those mandating verification of borrower income, are the QRM requirements that will exert largest impact on reducing delinquencies.

Three quarters of 2010 homebuyers would be disqualified under the proposed rule. While 20 percent down payments are beyond the reach of most Americans, the exclusory effect of the high down payment threshold will hit potential homebuyers of minority descent especially hard. The Federal Reserve's 2009 Survey of Consumer Finances placed minority renters' median savings at about one quarter of the median white renter's savings of $1,000. Furthermore, Census Bureau data places the median net worth of African-American households in the mid-2000s at about $8,600, which is clearly insufficient to support a 20 percent down payment on even a modestly priced home priced around $100,000.

Other elements of the proposed rule will also disproportionately impact minority homebuyers' access to home ownership. The proposed rule would only qualify loans for QRM status only if their payment-to-income (PTI) and debt-to-income (DTI) ratios are 28 and 36 percent, respectively. This would affect minority borrowers more significantly than non-minority homebuyers, given the net worth and savings disparities already cited above. While high PTI and DIT ratios pose loan risk, we believe the proposed ratios are unnecessary. For instance, while loans backed by the Federal Housing Administration (FHA) feature DTI ratios of up to 41 percent, FHA loans nonetheless exhibit considerably lower default rates than subprime products. The FHFA's data analysis shows that PTI and DTI limits disqualify more loans from QRM status than even the low down payment requirement. In addition, the FHFA analysis shows that loosening the PTI and DTI requirement significantly increases loans that qualify as QRMs while not significantly increasing default rates of QRM loans.

The proposed QRM standards will not only shut out large proportions of modest- and middle-income Americans from purchasing homes, but the standards also place the nation's tenuous economic recovery at risk. Conventional lending has dropped precipitously for all borrowers, but particularly for minority borrowers. In St. Louis, we have noticed a dramatic decrease in access to credit for minority borrowers while white communities have experienced an increase in credit. In February 2011 one of our member organizations, the Metropolitan St. Louis Equal Housing Opportunity Council released a report entitled *Redlined: A Fair Lending Analysis of the St. Louis Metropolitan Area* that examined home mortgage lending data to low-income and minority borrowers and communities over the last three years. The full report is available at our website at www.slehcra.org. According to the report, the volume of mortgage loan originations to African-American borrowers *decreased* by nearly 50 percent from 2007 to 2009, while the volume of originations to white borrowers actually *increased* by 22 percent over the same time period. Similarly, from 2007 to 2009 lending to predominately minority geographies (with 80 percent or above minority population) *decreased* by 68 percent, while lending to white areas with less than 10 percent minority population *increased* by 24 percent.

Restrictive QRM standards will reduce lending even further, without necessarily providing significant risk-reduction benefits to the lending and real estate sectors. Most importantly, this potential setback to recovery would be the result of the proposed down payment and income/debt ratio requirements that were not even statutorily required by the Dodd-Frank Act.

Although various regulatory agencies deny that QRMs will set the market standard for interest rates and lending volume, numerous analysts suggest otherwise. Additionally, more than 320 members of Congress already signaled their disagreement with the rule by signing a letter addressed to the regulatory agencies. If enacted, the proposed rule will reduce credit availability or significantly increase the price of credit for a wide swath of creditworthy Americans. We therefore urge the agencies to oppose the proposed changes and continue to allow loans with lower down payments and higher PMI/DTI ratios consistent with FHA guidelines to qualify as QRMs.

Thank you for your consideration of our comments.

Sincerely,

Jacqueline A Hutchinson

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Will Jordan
Metropolitan St. Louis Equal Housing Opportunity Council

Rose Eichelberger
Ready! Aim! Advocate! Committee

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