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Ladies and Gentlemen:

We are writing to you on behalf of our organizations to express our profound concern over reports that the interagency group working on the risk retention regulation under the Dodd-Frank Wall Street Reform and Consumer Protection Act is considering high down-payment requirements as part of the standards needed for loans to be designated as qualified residential mortgages (QRMs).

While we support a reasonable and affordable cash investment requirement, that requirement can be coupled with other underwriting features to ensure loan sustainability without unnecessarily narrowing access to credit. If the regulators impose a 20% -- or even a 10% -- minimum down-payment requirement as part of the new QRM framework, hundreds of thousands of creditworthy households will be excluded from homeownership because of the dramatic increase in the wealth required to purchase a home. Saving the necessary down-payment has always been the principal obstacle to buyers seeking to purchase their first home, particularly as homes have grown more expensive relative to incomes.   Even with a substantial savings commitment ($3,000 per year), it would take a typical median income family (2009 real median household income in the U.S. was $49,777) 14 years to accumulate the cash needed to purchase a home with a 20% down-payment on a median priced home (approximately $170,000 in 2009 and 2010), assuming closing costs of 5% of home price. With a 10% down-payment requirement, it would take 9 years. This assumes a saving rate in excess of the current rate of 5.8%, one of the highest savings rates since the early 1990s.   A high minimum down-payment requirement in the QRM will raise the cost of purchasing or refinancing homes unnecessarily and many will simply be priced out of the process—especially first time homebuyers who play an important role in a healthy housing market.

This is not what Congress intended or what the data support. It is abundantly clear from the record that Congress created the concept of a QRM to provide strong incentives for prudent loan underwriting that takes into account several key factors and the way they are layered together – not to establish arbitrary down-payment requirements. Strong documentation, income to support the monthly payment for the life of the loan, reasonable total debt servicing loads, protections from payment shock, and prohibitions on high-risk loan features like negative amortization and balloon payments are the core underwriting factors that will lower the risk of default.

Millions of low down-payment loans have been originated safely for decades and, with the right QRM rule, we can continue to make these important mortgage products available to qualified homebuyers on a safe and sustainable basis.

We realize the Administration and the regulators do not need to be told how vital the recovery of the housing market is to the fate of the nation’s economic prosperity. But we do feel obligated to tell you that, in our opinions, unnecessarily high down-payment requirements under QRM would make a near-term housing recovery almost impossible.

In the strongest possible terms, we urge you not to impose a down-payment requirement under QRM that thwarts the will of Congress, impedes the economic recovery and unnecessarily burdens American homebuyers.

Center for Responsible Lending
Consumer Federation of America
National Association of REALTORS®
National Association of Home Builders.