SPENCER BACHUS, AL, CHAIRMAN

United States House of Representatives
Committee on Financial Services
Washington, D.C. 20515

BARNEY FRANK, MA, RANKING MEMBER

ES137394

February 10, 2011

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

The Honorable Sheila Bair
Chairman
Federal Deposit Insurance Corporation
1776 F Street, NW
Washington, DC 20429

The Honorable Ben S. Bernanke
Chairman
Federal Reserve Board
20th Street and Constitution Avenue, NW
Washington, DC 20551

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

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

Mr. John Walsh
Acting Comptroller of the Currency
Office of Comptroller of the Currency
250 E Street, SW
Washington, DC 20219

Dear Sir or Madam:

As you prepare to prescribe regulations to implement the credit risk retention provisions in Section 941 of the Dodd-Frank Act (Public Law 111-203), care must be taken not to inadvertently expand taxpayer exposure to mortgage defaults. The Qualified Residential Mortgage ("QRM") exception to the risk retention requirements was designed to promote sound underwriting and to serve as a deterrent to excessive risk-taking by market participants. The definition of what constitutes a QRM should reflect this intent but it should not unnecessarily deter the return of private capital to the mortgage market.

Numerous news sources have reported that your agencies are considering a 20 percent down payment requirement for QRM loans. Pursuant to the Dodd-Frank Act, loans that do not meet the standards you establish by regulation cannot be sold or securitized without either the lender or issuer retaining a portion of the risk of those loans in the future. The private sector may not assume the entire risk associated with loans that do not meet the QRM standards. In that event, it is important to recognize that the Dodd-Frank Act exempted loans insured by the FHA from the risk retention rules and, in the absence of a robust private market alternative, the FHA program could become the only viable alternative for non-QRM lending.

In the context of Federal Government housing policy reform, the appropriate role of FHA must receive careful consideration. While FHA is playing and will continue to play a critical role in our housing finance system, it is not in the public interest for a government insurance program like FHA to dominate the market, especially if private capital is available to finance mortgages that exhibit a low risk of borrower default. One possible alternative is to allow the use of credit enhancements to offset part of the down payment requirement and, thus, help make homeownership more affordable.

I appreciate your consideration of my views as you implement the QRM rules in Section 941 of Dodd-Frank.

Sincerely,

SPENCER BACHUS
Chairman