

# COMMUNITY MORTGAGE BANKING PROJECT

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## BROAD SPECTRUM OF VOICES OBJECT TO PROPOSED DOWN PAYMENT REQUIREMENTS FOR QRM

### LEGISLATORS REJECTED MINIMUM DOWN PAYMENT REQUIREMENTS

“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.**”

- [Letter to regulators](#) by Senators Mary Landrieu (D-LA), Kay Hagan (D-NC) and Johnny Isakson (R-GA) – February 16, 2011

“I am concerned, however, that regulators may propose an entirely unnecessary large down payment for borrowers to meet the definition of a Qualified Residential Mortgage. This is not what we intended. **We sought to curtail lax underwriting standards and risky products by lenders, not to penalize credit-worthy borrowers seeking homeownership.** ... Simply put, a large down payment is not the most effective gauge of whether or not the borrower will pay their mortgage. This is precisely why prudent underwriting was at the center of our amendment.”

- [Op-ed](#) by Sen. Johnny Isakson printed in *The Hill*, February 15, 2011

### FORMER REGULATOR WARNS OF NEGATIVE IMPACT FROM MANDATORY DOWN PAYMENTS

“Done badly, the rule could essentially lock first-time homebuyers in particular out of all but the government-insured mortgage market. This would further increase wealth inequality in general, and especially across racial lines. Poorly thought-through rules could also impede new and existing home sales, thereby **slowing the current economic recovery.** Indeed, if the structure of the rule pushes all low-down-payment mortgages into the 100 percent federally guaranteed market—instead of encouraging the private sector to share the risk of some of those mortgages – the rule could also increase taxpayer risk in the event of another housing market downturn.”

- [White paper](#) by Ellen Seidman, former director of the Office of Thrift Supervision, now a member of the Mortgage Finance Working Group sponsored by the Center for American Progress.

### RESPECTED INDUSTRY ANALYSTS SEE HARM TO ECONOMIC RECOVERY

“[I]f regulators do not get it roughly right, **the rule will at best have no meaningful benefit and could at worst do significant damage to the fragile mortgage and housing markets...** Getting the QRM definition right is vital. Too narrow a definition—limited to loans with very high down

payments and high credit scores, for example – could significantly raise the cost of mortgage credit and reduce its availability for a large number of potential borrowers.”

“Historical loan performance data demonstrate that imposing stricter criteria, especially larger down payments, goes beyond the requirements of the Dodd-Frank legislation. Furthermore, it would **unnecessarily increase the cost or deny homeownership to many Americans**. Almost half the mortgage originations in 2010 involved loans with less than a 20% down payment. Most of these had down payments below 10%. A narrowly defined rule could also increase taxpayer exposure by shifting even more business to the FHA if a down payment differential exists with the private sector.”

- [Analysis](#) by Mark Zandi and Cristian DeRitis, “The Skinny on Skin in the Game” – Moody’s Analytics

### **CONSUMER ADVOCATES FEAR IMPACT OF MINIMUM DOWN PAYMENT REQUIREMENTS**

Increasing down payment requirements would **materially shrink the mortgage market with little increase in loan performance**... [R]esearch has shown that significant reductions in default rates are achieved by full underwriting documentation and reasonable debt-to-income ratios.<sup>2</sup> This suggests that mortgage loan performance will improve under new origination standards in the Dodd-Frank Act without having to add on additional higher down payment requirements.

- [Issue Brief](#) from the Center for Responsible Lending – “Don’t Mandate Large Down Payments on Home Loans” – February 25, 2011

### **REALTORS SEE POTENTIAL HARM TO CONSUMERS AS WELL**

“[R]equiring even households with good credit risks to come up with 20 percent down could have a **devastating impact on home sales**... The challenge would be especially hard for first-time buyers. According to data from NAR’s 2009 Home Buyer and Seller Profile, more than 75 percent of first-time buyers put down less than 20 percent. Only 13 percent made a down payment of 20 percent or more. Assuming a large percentage of those buyers put down less than 20 percent because they simply couldn’t afford to put down more, despite the fact they’re responsible borrowers taking out loans whose monthly payments they can comfortably afford, then you can see the kind of problem the 20-percent requirement would cause in markets around the country.”

- [Article](#) by Robert Freeman, in REALTOR Magazine, a publication of the National Association of Realtors – March 3, 2011

### **DATA MAKES CLEAR – QUALITY UNDERWRITING STANDARDS, NOT DOWN PAYMENT REQUIREMENTS, BEST WAY TO PREVENT DEFAULTS**

According to a new analysis of 33 million home loans originated between 2002 and 2008, boosting down payments in 5% increments has only a **negligible impact on default rates**. For example, moving from a 5% to a 10% down payment on loans that already meet all of the other QRM standards reduces defaults by an average of only two- or three-tenths of one percent – but eliminates anywhere from seven to 15% of borrowers from qualifying for a lower rate QRM loan. Increasing the minimum down payment even further to 20% would knock 20 to 25% of borrowers out of QRM eligibility, with only small improvement in default performance of about eight-tenths of one percent.

- [Press Release](#) from Community Mortgage Banking Project – March 7, 2011