

May 10, 2010

Dear Senator:

The undersigned consumer and civil rights organizations urge you to **oppose** the Corker-Gregg-Isakson (#3834) and the McCain-Shelby-Gregg (#3839) amendments to S. 3217, the Restoring American Financial Stability Act of 2010.

Corker-Gregg-Isakson Amendment

The Corker-Gregg-Isakson (#3834) amendment replaces the risk retention provisions of S. 3217, Title VII, Subtitle D, (b) Credit Risk Retention with a study on the feasibility of risk retention requirements for financial institutions and implements residential mortgage underwriting standards that include a mandatory 5% down payment for all mortgages. This Amendment would leave in place the misaligned incentives and bad business practices that led us into this mortgage crisis. While we would support a narrow exemption from the retained risk provisions for safer mortgages that are properly underwritten and do not include exotic, risky features including those that cause payment shock or lock people into bad mortgages, we strongly support having a risk retention provision in the bill.

At the same time, we cannot support a five percent down payment requirement, which would significantly harm efforts to extend homeownership to low and moderate income households, communities of color, and first-time homebuyers. Many of these households can afford the cost of such mortgages on a monthly basis, especially with current low interest rates and house prices that in many markets are below historical trends. But they are not able to acquire the wealth needed to meet the down payment requirement proposed in this amendment. There is ample evidence from the University of North Carolina's Center for Community Capital's research on low down payment mortgages made through the Community Advantage Program© sponsored by Self Help Venture Fund that low wealth borrowers can and do succeed when they are able to obtain fully documented, safe loans. Other research by Neighborworks America and the Center for American Progress show the same results when examining mortgages made through Neighborworks' Campaign for Homeownership and through Community Land Trusts.

The National Association of Realtors' 2009 Profile of Home Buyers and Sellers showed that 11% of all home purchasers surveyed had down payments of 5% or less. When considering only first-time homebuyers, the percentage utilizing a down payment below 5% increases to 18%. Improving underwriting to ensure that the consumer has the ability to repay their obligation is in the best interest of everyone, but eliminating the possibility for some creditworthy consumers to buy a home will have significant detrimental ramifications for American families, the housing sector and those businesses that support it.

Finally, S. 3217 is establishing a Consumer Financial Protection Bureau to ensure that consumers' financial interests are protected in all areas of household finance. We believe that the CFPB is the correct regulatory agency to address rules related to mortgages.

For these three reasons, we urge you to oppose the Corker-Gregg-Isakson amendment.

McCain-Shelby-Gregg Amendment

The McCain-Shelby-Gregg (#3839) amendment would radically reshape the U.S. housing finance system by putting arbitrary timetables into place for the dissolution of Fannie Mae and Freddie Mac, without suggesting any form of substitute to insure continued access to affordable long term mortgage credit for consumers, jeopardizing mortgage liquidity in both the near and long term. We strongly support reform of the secondary market, and support the Administration's recent initiative to seek public comment on

possible new models to do so. But at this time the GSEs are playing a significant role in stabilizing the housing market. Last year they provided more than \$1trillion for mortgage purchases and refinances for more than 5 million American households. Without their participation in the market there would be no reliable source of long term fixed rate financing for consumers. This amendment provides no sensible course to continue to provide this, and takes a meat-axe approach to a problem that demands careful thought and execution.

The conservatorship has enabled the government to tightly regulate and direct the companies and there is no prospect of this situation ending anytime in the near future. Shareholders, former management and boards all have been appropriately penalized for the companies' failure. The Senate should not vote to require precipitous action that could destabilize the housing market further and cut off the last significant remaining supply of affordable mortgage credit to consumers.

The specific requirements of this amendment would effectively prohibit them from participating in the secondary mortgage market. It would arbitrarily and aggressively force a reduction in their current mortgage portfolios. It would repeal the current higher loan limits that are enabling them to funnel capital to the widest range of markets affected by the mortgage crisis, and reduce loan limits to less than \$100,000 in some areas, less than half the current FHA floor.

Most damaging to consumers, the amendment establishes an escalating mandatory down payment percentage that would most deeply affect low and moderate income consumers and communities of color that have historically low levels of household wealth to begin with. Beginning one year after the 24-month assessment period, the minimum down payment requirement would be 5%. Two-years out, the down payment would be 7.5%. After three years, the down payment would be 10% for conventional-conforming loans. Again, we do not believe it is appropriate to establish such high down payment requirements and certainly not to do so in statute.

As with the Corker-Gregg-Isakson amendment, these limits fly in the face of well established research into the performance of well underwritten and fully documented loans without exotic features, and would place an unnecessary burden on lower income families and those that have not had a history of homeownership and its attendant asset building with which to make such high down payments.

We are disappointed in the business decisions that Fannie Mae and Freddie Mac made during the latter years of the housing bubble that have landed them in such dire straits. We support thoughtful efforts to reform the secondary market so that it can return to its traditional roles of providing liquidity and stability without direct support from taxpayers. The conservatorship insures that there is a continuing affordable source of mortgage credit while the work to reform the system is undertaken. Without this intervention the housing crisis would have been even deeper and more damaging to consumers and communities. The McCain-Shelby-Gregg amendment would establish an arbitrary timeline for the government's withdrawal from this critical function without offering any credible plan for how to replace it. We do not support such a precipitous about-face in national policy and urge you to vote against the amendment.

We appreciate the opportunity to share our views with you and we respectfully request that you **oppose** the McCain-Shelby-Gregg (#3839) and the Corker-Gregg-Isakson (#3834) amendments to S. 3217, the Restoring American Financial Stability Act of 2010.

Sincerely,

CAP Action Fund

Center for Responsible Lending

Consumer Federation of America

National Association of Consumer Advocates

National Consumer Law Center (on behalf of its low income clients)

National Council of La Raza

National Fair Housing Alliance

National People's Action