January 10, 2012

The Honorable Ben S. Bernanke
Chairman
Board of Governors of
The Federal Reserve System
2001 C Street, NW
Washington, DC 20001

Dear Chairman Bernanke,

The revitalization of the housing sector is one of, if not the, biggest issues thwarting our economic recovery. It is very important that we continue the discussion of ways to resolve what your staff describe as the "extraordinary problems plaguing the housing market" and encourage the return of private capital to the U.S. mortgage market. In your staff's white paper entitled "The U.S. Housing Market: Current Conditions and Policy Considerations," I was particularly struck by your observation that policymakers need to take action to "remove some of the obstacles preventing creditworthy borrowers from accessing mortgage credit." I absolutely agree that this is critical to housing, and overall economic recovery.

One important way to remove a huge obstacle that is standing in the way of credit worthy homebuyers is to adopt rules that appropriately implement the risk retention provisions of Section 941of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (PL 111-203, Sec. 941(b)). As my colleagues and I have mentioned in previous correspondence and testimony, the purpose of the Qualified Residential Mortgage (QRM) exemption from risk retention is to restore liquidity to housing and mortgage securitization by creating a robust underwriting framework that will attract private capital to support responsible lending and borrowing. An appropriately structured QRM sparks the return of private capital to mortgage securitization without increasing the role of the federal government. However, the currently proposed rule would result in a QRM with a punitive, high down payment requirement of 20 percent that would stifle housing demand by forcing responsible homeowners to postpone buying or refinancing a home for years, or to take on mortgages at much higher interest rates.

The proposed rule – as crafted – will be another obstacle limiting access to mortgage credit, and if advanced will have the perverse effect of undermining efforts to attract private capital back to mortgage securitization and to restore our shaky housing market, which is the very opposite of the provision's legislative intent. I find it troubling that the Federal Reserve continues to push for a 10 or even 20 percent minimum down payment for the purchase of a home, an overly stringent requirement that will be a clear impediment to home ownership, while at the same time urging Congress to remove obstacles to credit access for qualified future homeowners.

Adopting a risk retention rule that follows legislative intent is a simple, high-impact solution to a problem that has become further complicated and drawn out by regulatory review since it was first announced on March 29, 2011. Done right, risk retention and QRM will have a significant and prompt impact on housing recovery. I urge you and your fellow regulators to promptly implement risk retention including an appropriate QRM exemption. Neither the housing market nor the broader economy can afford further delays.

Sincerely,

Senator Johnny Isakson