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COALITION FOR SENSIBLE HOUSING POLICY

Proposed Federal Rule Would Require Homeowners with Less than 25 Percent Equity to Pay More to Refinance - A State-by-State Analysis

In late March 2011, six federal agencies released their proposal to implement credit risk retention provisions included in the Dodd-Frank Wall Street Reform and Consumer Protection Act; the proposal included their definition of the "Qualified Residential Mortgage" (QRM). The QRM definition requires the issuers of mortgage-backed securities to retain a portion of the risk of potential loss on those assets. Recognizing that risk retention would impose increased costs even on creditworthy borrowers, Congress sought to incentivize more responsible borrowing and lending by exempting some mortgages – QRMs – from risk retention requirements if they met thorough underwriting standards.

However, despite compelling data that demonstrate how sound underwriting and product features, like documentation of income and type of mortgage, have a larger impact on reducing the risk of default than high down payment and equity requirements, the QRM definition issued by regulators is very narrow. In addition to requiring potential homebuyers to put down 20 percent on the cost of a new home, it also requires current homeowners with a mortgage to have 25 percent equity in their home in order to refinance. In short, the proposed rule moves many creditworthy, responsible homeowners into the higher cost non-QRM market.

More than Half of U.S. Homeowners with Mortgages Impacted

An analysis of CoreLogic data has found that among U.S. homeowners with mortgages, 52 percent – 24.8 million homeowners – have less than 25 percent equity in their homes. In the six states with the highest percentage of homeowners who do not have 25 percent equity – Nevada, Arizona, Florida, Georgia, Michigan and Mississippi – more than six out of every ten homeowners with mortgages would not be eligible to refinance with a lower rate QRM. The National Association of Realtors © estimates that borrowers' costs for non-QRM mortgages may be between 0.80 and 1.85 percentage points higher than QRM loans, while Moody's economist Mark Zandi indicates the rate hike for a non-QRM would be 0.75 to 1.0 percentage point.

When looking at the sheer number of homeowners who fall below the proposed QRM equity threshold, California is home to the most homeowners with a mortgage – nearly 3.7 million. Florida has the next highest total, with almost 3 million homeowners with less than 25 percent equity. They are followed by Texas, Ohio, Illinois and Georgia – all of which have over 1 million homeowners with less than 25 percent equity.

Even the states with lowest percentage of homeowners who fall beneath the threshold have significant populations that will face higher costs. For example, twenty-six percent of homeowners in New York, the state with the lowest proportion of homeowners with less than 25 percent equity, would face increased costs. However, that means nearly one-half million New Yorkers will not have the opportunity to qualify for a lower rate QRM based on the equity requirement alone.

Requirements will Increase Costs for Creditworthy Homeowners

Home equity requirements will increase refinancing costs for millions of responsible, creditworthy homeowners looking to take advantage of low interest rates and refinance their mortgage loans. On a $210,000 loan, a 0.75 percent increase in the interest rate (the low end of most public estimates) would boost a borrower's payments by almost $100 per month, and nearly $6000 over five years. The increase in monthly payments associated with a higher rate non-QRM simply takes funds away from families that could otherwise be used for savings, reduction of other debt, investment, or meeting other family needs – all activities that would improve the borrower's financial position, reduce their financial risk profile, and contribute to economic growth.

The analysis of the CoreLogic data clearly demonstrates that the federal regulators' proposal on QRM will increase refinancing costs on millions of Americans. The data also show that even with a five percent minimum equity standard, almost 14 million existing homeowners with mortgages will be unable to obtain a QRM. For those borrowers that have already put significant "skin in the game" through down payments and years of timely mortgage payments, only to see their equity eroded by the housing collapse, the proposed QRM definition tells them they are not "gold standard" borrowers and they will have to pay more. In effect, the proposed QRM would penalize families who have played by the rules, stayed current on their mortgage, scraped each month to pay their bills and now need to refinance or relocate.

The Coalition for Sensible Housing Policy believes that the QRM should be redesigned to encourage sound lending behaviors that reduce future defaults without harming responsible borrowers and lenders. For more information, visit www.sensiblehousingpolicy.org

State-by-State Analysis of Homeowners Facing Increased Refinancing Costs as a Result of Federal Regulators' QRM Proposal

	Proportion of Homeowners with Less Than 25% Equity	Rank (1 being the most severely impacted)	Total Number of Homeowners with Less Than 25% Equity	Rank (1 being the most severely impacted)
National	***52%***		***24,764,345***	
Alabama	47%	30	160,265	29
Alaska	44%	35	40,772	42
Arizona	72%	2	950,544	7
Arkansas	51%	18	122,865	34
California	54%	10	3,672,304	1
Colorado	58%	7	658,631	13
Connecticut	37%	42	302,016	23
Delaware	42%	37	76,801	40
District of Columbia	41%	40	40,312	43
Florida	66%	3	2,933,728	2
Georgia	65%	4	1,052,676	6
Hawaii	30%	48	68,641	41
Idaho	54%	10	131,855	33
Illinois	52%	15	1,143,133	5
Indiana	49%	24	297,820	24

Iowa	45%	34	156,948	30
Kansas	48%	26	143,558	31
Kentucky	48%	26	136,392	32
Louisiana	47%	30	99,565	37
Maine	35%	44	23,776	45
Maryland	50%	20	671,179	12
Massachusetts	37%	42	559,371	16
Michigan	64%	5	884,899	8
Minnesota	46%	33	261,346	27
Mississippi	62%	6	23,637	46
Missouri	52%	15	406,267	20
Montana	35%	44	40,069	44
Nebraska	51%	18	113,320	35
Nevada	83%	1	482,068	19
New Hampshire	50%	20	106,059	36
New Jersey	41%	40	765,318	10
New Mexico	42%	37	97,503	38
New York	26%	49	484,856	18
North Carolina	53%	13	806,720	9
North Dakota	34%	46	16,864	47
Ohio	56%	8	1,234,990	4
Oklahoma	50%	20	204,386	28
Oregon	49%	24	341,292	21
Pennsylvania	34%	46	618,355	15
Rhode Island	42%	37	95,190	39
South Carolina	54%	10	324,627	22
South Dakota	N/A	N/A	N/A	N/A
Tennessee	53%	13	518,102	17
Texas	48%	26	1,583,288	3
Utah	55%	9	262,340	26
Vermont	N/A	N/A	N/A	N/A
Virginia	52%	15	652,071	14
Washington	48%	26	679,213	11
West Virginia	43%	36	4,681	49
Wisconsin	47%	30	297,400	25
Wyoming	50%	20	16,332	48