COALITION FOR SENSIBLE HOUSING POLICY

Proposed QRM Penalizes Responsible Consumers

The Qualified Residential Mortgages (QRM) exemption was intended by Congress to provide lower cost, safer mortgages to responsible consumers – mortgages with sound underwriting standards that have been proven to reduce the risk of default. Unfortunately, by requiring 10 or 20 percent down payments to qualify, and even higher levels of minimum equity required for refinancing, regulators have turned that formula upside down.

DOWN-PAYMENT REQUIREMENTS POSTPONE HOMEOWNERSHIP BY A DECADE OR MORE

It would take 9.5 years for the typical American family to save enough money for a 10 percent down payment on the median priced home, and fully 16 years to save for a 20 percent down payment. And that is on average. In higher cost markets, even 10 percent down payments create significant barriers for responsible borrowers. The Center for Responsible Lending estimated that it would take a U.S. Army Staff Sargent 16 years to save for a 10 percent down payment, a firefighter 11 years, and nine years for an elementary school teacher as well as a police officer if they were buying a median priced home.

Years for Median Income Family to Save for Down Payment[i]
(Assuming all savings are directed toward home purchase)

	20% Down Payment	10% Down Payment	5% Down Payment	3.5% Down Payment
2010 Median Sales Price	$172,900	$172,900	$172,900	$172,900
Down payment + Closing Costs (est. @ 5% of loan amount)	$41,496	$25,071	$16,858	$14,394
# of Years Needed to Save @ National Savings Rate (5.2% of gross household income = $2,625 per year)	16 years	9.5 years	6.5 years	5.5 years

25 MILLION EXISTING HOMEOWNERS UNABLE TO OBTAIN QRM TO MOVE OR REFINANCE

Based on data from CoreLogic's quarterly "negative equity" analysis, nearly 25 million current homeowners with mortgages would be denied access to a lower rate QRM to refinance their home because they do not currently have 25 percent equity in their homes. Many of these borrowers have paid their mortgages on time for years, only to see their equity eroded by a housing crash and the severe recession. Even with a 5 percent minimum equity standard, almost 14 million existing homeowners with mortgages – many undoubtedly with solid credit records – will be unable to obtain a QRM.

In states already hit hard by the housing crisis, at least two out of three homeowners with mortgages do not have at least 25 percent equity in their homes that would allow them to refinance with lower rate QRM. Six out of ten would not be able to move and use the proceeds to put 20 percent down on their next home in order to get a QRM.

Equity Position of U.S. Homeowners with Mortgages

47.9 million U.S. homeowners with mortgages:	**30% equity**	**25% equity**	**20% equity**	**10% equity**	**5% equity**
# with less than…	27.5 million	24.8 million	21.9 million	16.3 million	13.5 million
% with less than…	57%	52%	46%	34%	28%

Existing Homeowners with Mortgages Not Meeting QRM Equity Requirements
Top 5 States with Highest Percentages[ii]

State:	Proportion of homeowners with less than **30% equity**	…less than **25% equity**	… less than **20% equity**
Nevada	85%	83%	80%
Arizona	75%	72%	68%
Georgia	71%	65%	59%
Florida	70%	66%	63%
Michigan	68%	64%	59%

RESPONSIBLE CONSUMERS FORCED INTO NON-QRM LOANS WILL PAY MORE

According to the National Association of REALTORS®, consumers in a non-QRM loan could pay between 0.80% and 1.85% percentage points more in interest rate, simply because they could not meet the down payment or equity requirements.[iii] Similarly, a June 20, 2011 analysis by Mark Zandi of Moody's Analytics estimates "conservatively" an increase of 75-100 basis points.[iv] In other words, today's 4.5 percent contract rate for a 30-year fixed-rate loan that did not meet the QRM requirements would become a 5.25 percent rate, at best, and could go as high as 6.35 percent based on these estimated ranges. These are unnecessary costs for responsible consumers.

The QRM should be redesigned to align with Congressional intent: encourage sound lending behaviors that reduce the risk of future defaults without harming responsible borrowers and lenders.

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[i] Sources: Home Sales Price: NAR 2010 median sales price for condos and single-family homes. Household Income: NAR estimate of 2010 median before-tax household income ($50,474). Personal Savings Rate: Estimated as a percentage of gross income based on 2010 data from the Bureau of Economic Analysis, *Personal Income and Outlays*. These figures are conservative because they assume 100% of family savings are dedicated towards a down payment and closing costs.
[ii] Source: Community Mortgage Banking Project, data from CoreLogic Inc., for both tables.
[iii] http://economistsoutlook.blogs.realtor.org/2011/06/17/qrm-higher-mortgage-rates-on-the-horizon/
[iv] Mark Zandi and Cristian deRitis, Moody's Analytics Special Report, "Reworking Risk Retention," June 20, 2011.