

December 6, 2013

Dear Representative:

Five years after the housing market collapsed, it is time for the mortgage market to have common sense rules that prevent the kind of abusive lending practices that devastated many communities, disproportionately communities of color. The Consumer Financial Protection Bureau (CFPB) has finalized regulations implementing the mortgage reforms in the Dodd-Frank Wall Street Reform and Consumer Protection Act. These rules are scheduled to go into effect in January 2014. The undersigned organizations write to express our support for these rules and the absolute necessity of implementing them on time, and we urge you to support a timely implementation of these rules as well.

One of the key rules finalized by the CFPB is the Ability to Repay/Qualified Mortgage rule, which implements the common sense Dodd-Frank requirement that lenders make a determination that borrowers have the ability to repay their loan within the terms defined by the loan. In the housing boom that precipitated the financial crisis, many loans had little underwriting and included built-in payment shocks. Mortgage originators were paid far more to sell these loans than to provide sound and sustainable standard loans, like the thirty-year fixed rate mortgage. Not surprising, these predatory loans were heavily marketed to borrowers in low income communities and communities of color, and left many creditworthy homeowners with unsustainable mortgages.

Studies have documented that, even after controlling for credit scores and incomes, African-American and Latino borrowers were far more likely to receive these risky and unaffordable loans, and these loans were far more likely to end up in foreclosure. The result has been the loss of wealth of more than 40 percent for Latino families and more than 30 percent for African-American families between 2007 and 2010.

The CFPB has finalized a broad Qualified Mortgage rule that will benefit our communities. Qualified Mortgage loans include significant consumer protections, including no negative amortization and no interest only payments. Additionally, yield spread premium payments to mortgage brokers are included in the points and fees calculation, and all Qualified Mortgage loans are required to have limited points and fees overall. Adjustable-rate mortgages are able to get Qualified Mortgage status, but the borrower must be able to afford the maximum rate for five years, not just luring in borrowers with short-lived teaser rates. The Bureau's rule captures some 95 percent of current lending through inclusion of four different categories of loans that can gain Qualified Mortgage status. The CFPB adopted this balanced approach after extensive input from industry, civil rights, and consumer groups. The end result is a broad standard with clear, bright line definitions that permits a wide range of lending.

Delaying the Qualified Mortgage rule out of fear that it will restrict access to credit for communities of color and lower-wealth borrowers is not in the best interest of our communities. The impact of the rule on our communities is an empirical issue that can

only be assessed through careful monitoring after the rule is implemented. Furthermore, the rule has a number of protections built in to minimize any adverse impact on borrowers. . For example, one of the four Qualified Mortgage categories allows loans that are eligible for purchase by the GSEs or insurance by FHA to gain Qualified Mortgage status. This is a key part of the rule, because the GSE and FHA underwriting standards allow for loans to borrowers with higher debt-to-income ratios when there are appropriate compensating factors. With this provision, the Qualified Mortgage standard is a very broad standard.

The Dodd-Frank Act mortgage reforms are critical to protect families of color from future abusive lending, and implementation of these rules should not be delayed. We urge Congress to stand with us and support the current schedule for implementing these essential consumer protections.

Sincerely,

NAACP  
National Council of La Raza  
National Fair Housing Alliance  
Leadership Conference on Civil and Human Rights  
Center for Responsible Lending