

From: Eastman Credit Union, Olan O. Jones, Jr.
Proposal: 1411 (7100-AD70) - Credit Risk Retention
Subject: Credit Risk Retention - Reg RR

Comments:

August 1, 2011

Board of Governors Federal Reserve System

Dear Board of Governors Federal Reserve System:

Re: Credit Risk Retention Proposed Rule

OCC: Docket No. OCC-2011-0002

FRB: Docket No. R-1411

FDIC: RIN 3064-AD74

SEC: File Number S7-14-11

FHFA: RIN 2590-AA43

HUD: Docket No. FR-5504-P-01

Dear Sir or Madam:

On behalf of Eastman Credit Union (ECU), I am writing to express ECU's concerns about the potential and unintended adverse consequences of the qualified residential mortgages (QRM) exemption to the Agencies' proposed Credit Risk Retention regulations published on April 29, 2011 (the proposed Rule). Eastman Credit Union is a not-for-profit financial cooperative serving members throughout the 50 states, but primarily in an eight county area in Northeast Tennessee and Southwest Virginia. ECU provides its members with a wide array of home mortgage options, as well as other financial services. Through the years and to the present time, ECU has been able to serve its members' needs for home mortgage financing while maintaining safe and sound lending practices and minimal charge-offs and losses.

ECU is gravely concerned that the unintended effect of the proposed Rule will be to exclude many ECU members who would otherwise qualify for mortgages from enjoying the benefits of home ownership. Specifically, ECU is asking that the Agencies reconsider the following provisions of the proposed Rule:

1. Restricting QRMs to loans with loan-to-value ratios of 80%, without including a provision for mortgage insurance to protect the lender, may exclude many of ECU's members from obtaining mortgages at affordable rates and could prevent many of our members from enjoying the benefits of home ownership. Through strong underwriting and sound lending practices, ECU has assisted many members in owning a home without the requirement of a 20% down payment. The exemption as written is excessively stringent and will result in needless higher cost mortgages to ECU's members.

2. The debt-to-income ratios for QRMs are also overly restrictive. As with the very restrictive loan-to-value ratios, the debt to income ratios of 28%/36% will force many of ECU's members out of the home market all

together. Many of our younger members will be forced to continue to pay high rental rates because they cannot meet the very restrictive debt-to-income ratios, even when our expert underwriting would otherwise allow ECU to help those members into their first home with an affordable mortgage payment. Instead of defining QRMs in such a restrictive manner, ECU urges the Agencies to focus on truly risky loan products and high quality underwriting requirements. Excellent and well documented underwriting is far superior to unrealistic formulas for ensuring stability in the mortgage markets.

3. The stringent credit history requirements in the rule are unrealistic. It is critical that lenders have the flexibility to consider a prospective borrower's entire financial picture and history. Unusual life events can cause prospective borrowers with an otherwise excellent financial history to have an atypical recent credit history. As with other underwriting criteria, lenders must be allowed to retain the flexibility to make and document exceptions without completely excluding an otherwise qualified borrower from the home mortgage market.

4. The servicing standards in the proposed Rule are unrelated to the goals behind risk retention, and unnecessarily interfere in the lender's and borrower's relationship. A formulaic approach to loan mitigation, which necessarily requires an individualized approach to be successful, is counterproductive and will result in higher costs to the parties without any attendant benefit.

ECU asks that the Agencies reconsider the boundaries they have drawn around the QRM exemption. The stated purpose of the Act and the proposed regulations is to encourage appropriate risk management practices, to help ensure high quality underwriting standards, and to improve the access to mortgage credit on reasonable terms. ECU fully supports those stated goals, but respectfully suggests that the proposed Rule for the QRM exemption will not produce that desired result. A necessary component of economic recovery is the leap of faith to commit to home ownership and unnecessarily restrictive regulations that act as a barrier to buying a home will have the exact opposite result. Contrary to the Act's stated goals, the regulations as written will most certainly have a negative impact on access to affordable mortgage credit.

ECU appreciates the opportunity to comment and thanks the Agencies for their time and consideration of this very important issue.

Sincerely,

Olan O. Jones, Jr.
President and CEO
Eastman Credit Union