The Honorable Jerome Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave. NW
Washington, DC 20551

The Honorable Michael Hsu
Comptroller
Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E–218
Washington, DC 20219

The Honorable Martin Gruenberg
Chair
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

July 24, 2023

Dear Chair Powell, Comptroller Hsu and Chair Gruenberg:

We are writing to express our deep concern about reports that you are considering significantly increasing capital standards on some mortgages with down payments of less than 20%. Such a significant increase in capital standards will lead to reduced credit availability for all types of lending and undermine economic growth. If these standards are adopted, they will have a devastating impact on our efforts to increase Black homeownership and disadvantage all first-time, and, in particular, first-generation homebuyers who do not have the benefit of multi-generational wealth or higher than average incomes.

Homeownership is widely recognized as the primary way that most Americans build wealth. Unfortunately, discriminatory housing policies have resulted in people of color being excluded from having equitable access to owning a home, even when they have sufficient income to cover debt service. As a result, persistent and growing racial wealth gaps continue with many hardworking families lacking the resources to save for a down payment to purchase their first home. As the FDIC itself noted in its own report on Down Payment and Closing Cost Assistance, "For many low- and moderate-income people, the most significant barrier to homeownership is the down payment and closing costs associated with getting a mortgage loan."[1]

According to a report by the Center for Responsible Lending (CRL) [2], Black households are falling further behind other racial/ethnic groups in homeownership, and Latino households continue to

[1] FDIC Affordable Mortgage Lending Guide Part II, October 12, 2021, page 22. https://www.fdic.gov/resources/bankers/affordable-mortgage-lending-center/guide/part-2-docs/down-payment.pdf
[2] Hardship for Renters: Too Many Years to Save for Mortgage Down Payment and Closing Costs, by Christelle Bamona. Center for Responsible Lending Datapoint Report, April 2021. https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-mortgage-downpayment-7apr2021.pdf

trail White households. CRL estimates that it would take 14 and 11 years respectively for Black and Latino renter households at each of their median incomes to acquire enough funds to afford a 5% down payment and associated closing costs for a median-priced home. In contrast, White renter households need 9 years to save for a 5% down payment, thus benefiting from an earlier entry into homeownership and its wealth-building advantages. Incentivizing a 20% down payment would make it impossible for many creditworthy borrowers to save enough for a down payment.

Modern mortgage banking has long evaluated risk using a wide range of compensating factors including reserves, rental housing payment history, credit history, debt-to-income ratios, and mortgage counseling. Increasing capital requirements based on loan-to-value (LTV) as a single factor will unfairly hurt those borrowers who lack multigeneration wealth or have lower incomes. In addition, mortgage insurance more than offsets any risk that may be associated with mortgages that have loan-to-value ratios above 80%.

Under the Fair Housing Act, federal regulatory agencies are required to assess policy changes for their potential to discriminate against or exacerbate negative outcomes for protected classes under the Act. Rather than affirmatively further fair housing, this approach will negatively impact homeownership opportunities for all protected classes.

At a time when banks around the country are making efforts to address the homeownership gap, and Special Purpose Credit Programs[3] are being adopted to improve racial equity by financial institutions, requiring an unprecedented and unnecessary level of capital for high LTV mortgage loans risks moving the entire industry in the wrong direction by limiting credit access for borrowers of color.

We strongly urge that the proposed capital rules do not include any increases for mortgage lending, and that the risk weighting remain at 50% for well-underwritten high LTV loans.

Sincerely,

National Housing Conference

Mortgage Bankers Association

NAACP

National Association of REALTORS®

National Urban League

[3] *See*, Special Purpose Credit Program Toolkit, https://spcptoolkit.com/