

COALITION FOR SENSIBLE HOUSING POLICY

Federal Proposal Could Raise Refinance Costs for Nearly 900,000 Michigan Homeowners

More than three out of five Michigan Homeowners Affected

Washington, D.C. (July 27, 2011). – Nearly 900,000 Michigan homeowners would face more expensive mortgages if a proposal by federal regulators goes unchanged. The proposal would require homeowners to have at least 25 percent equity in their homes in order to qualify for a lower-rate “Qualified Residential Mortgage” (QRM) when refinancing.

Michigan would be the fifth most impacted state under the proposal. Sixty-four percent of homeowners with mortgages who would like to refinance would face higher costs. An [analysis](#) of CoreLogic data shows 884,899 Michigan homeowners have less than 25 percent equity in their homes. Homeowners who would like to refinance their mortgages but fail to qualify for a QRM will be subject to additional costs associated with lenders’ risk retention requirements included in the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Along with requiring current homeowners to have at least 25 percent equity, the proposed QRM rule requires potential homebuyers to put down 20 percent on the price of a new home or face additional costs. 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.

“Every day, we work with local families looking to refinance their mortgage in order to save a little more money every month. They have been responsible with their money and paid their bills on time. But if this new rule goes into effect, they won’t be eligible for the lowest rates. That just doesn’t seem fair,” said Mark Jones, President and Co-founder [AmeriFirst Home Mortgage](#), which is headquartered in Michigan.

A total of 52 percent of homeowners nationally would fail to meet the equity standard proposed by the federal regulators with the great majority located in about one-fifth of the states. Michigan would be the fifth most impacted state under the proposed rule. The others are Nevada, Arizona, Florida and Georgia, where at least six in 10 homeowners do not meet the equity requirements.

The proposed QRM definition is part of the risk retention regulations required by the Dodd-Frank Act, which Congress enacted last year. The risk retention provisions require 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.

The proposed QRM rule ignores compelling data that demonstrate sound underwriting and product features, like documentation of income and type of mortgage, have a larger impact on reducing default rates than high down payment and equity requirements.

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

###