June 25, 2019

Kathy Kraninger
Consumer Financial Protection Bureau, Director
1700 G Street. NW
Washington, DC 2006

Dear Director Kraninger:

On behalf of The National Association of Hispanic Real Estate Professionals (NAHREP) we write to urge your support for a replacement that better measures a consumer's capacity to repay as opposed to today's reliance on Debt-to-Income ratios. If this cannot be accomplished prior to the expiration of the QM Patch, we urge the CFPB to extend the patch until a suitable replacement can be implemented. Few policy decisions will impact the Hispanic homeownership rate over the next few years like the expiration of the "QM Patch."

Our organization is one of the largest Latino business organizations in the country with over 30,000 members and more than 80 local chapters.[1] The passion behind our growing membership revolves around one primary mission: that of advancing sustainable Hispanic homeownership, because we believe homeownership has a unique ability to uplift families, create strong communities and stimulate a prosperous national economy for all Americans.

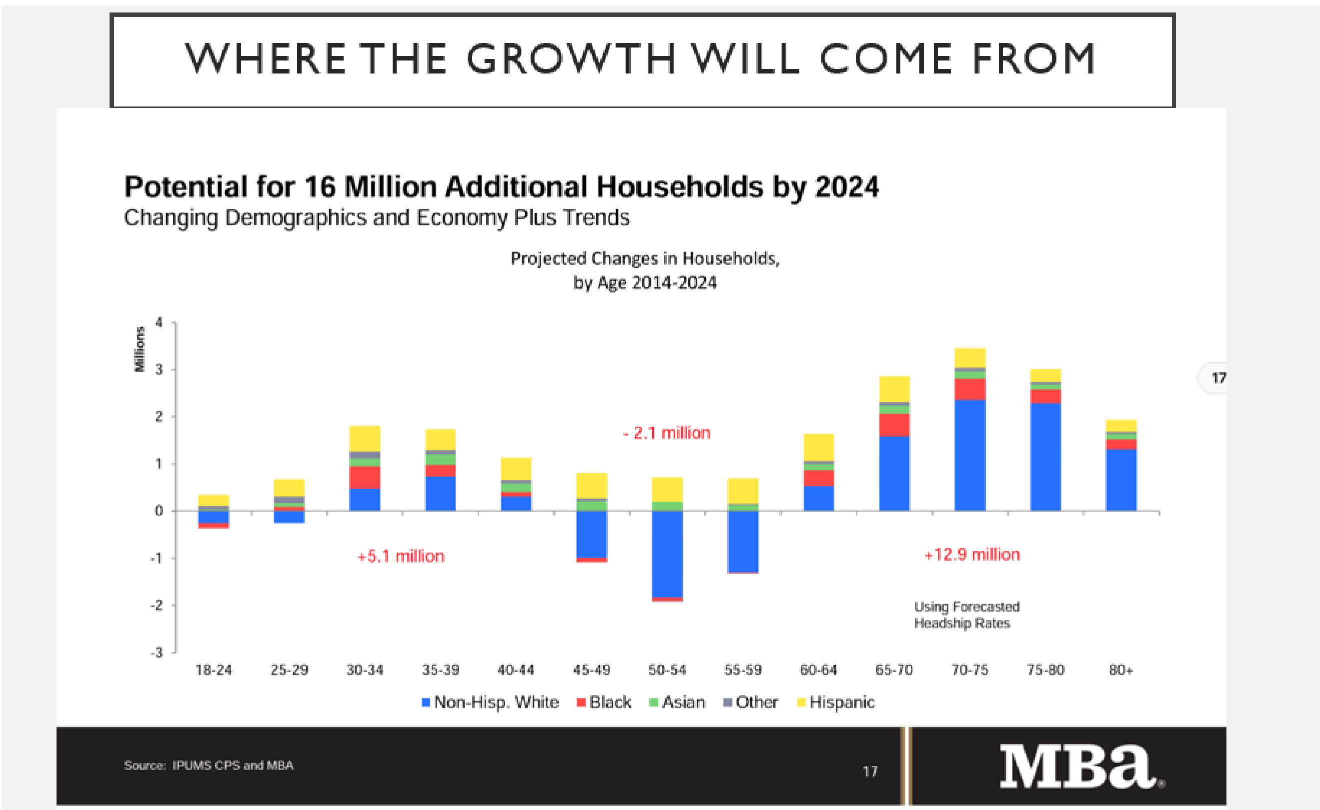
I.) Hispanics and the Future of the Housing Market

Annually, NAHREP produces the State of Hispanic Homeownership Report, a publication that tracks how Hispanics are faring with respect to homeownership attainment and other economic indicators. At a Homeownership rate of 47.1, Hispanics have increased their rate of homeownership for the past four consecutive years.[2] In 2018, Hispanics achieved a net gain of 362,000 homeowners, the largest net gain for the population since 2005. And, over the past decade, Hispanics have accounted for 62.7 percent of the net U.S. homeownership growth in total.[3]

Despite this remarkable growth, homeownership rates among Latinos have yet to return to their pre-crisis levels and fall far below that of their non-Hispanic White counterparts. At the end of 2018, the Hispanic homeownership rate was 47.1 percent, compared to 73 percent for the non-Hispanic white population and 64.4 percent for the general population. While Hispanic homeownership trends are positive, they should be much higher.

[1] The terms "Hispanic and Latino" are used interchangeably by the U.S. Census Bureau and throughout this document to refer to people of Mexican, Puerto Rican, Cuban, Central American, South American, Dominican, Spanish and decent from other Spanish-Speaking countries.
[2] Calderon, M. (2019, April 9). 2019 State of Hispanic Homeownership Report. NAHREP. Retrieved from https://nahrep.org/downloads/2018-state-of-hispanic-homeownership-report.pdf
[3] U.S. Census Bureau. (2019, February 28). Current Population Survey/Housing Vacancy Survey. Available from https://www.census.gov/housing/hvs/data/index.html

At the same time, Hispanics are projected to account for more than half of all new potential homeowners over the next several years and for 56 percent of all new homeowners by 2030.[4] Hispanics are also the fastest growing native-born U.S. population, accounting for more than half of the nation's population growth since the year 2000. And, at a median age of 29, Hispanics are just entering their prime home buying years, further increasing homeownership potential for decades to come.[5] These trends underscore an important reality: Hispanics are driving homeownership growth in America. However, if the mortgage market fails to support those potential new homeowners along their home buying journey, the nation will bear the economic consequences. To put things into perspective, if population projections come to bear and homeownership rates across ethnic groups remain consistent with current rates, it would mean that the national homeownership rate would decline by nearly 10 percentage points over the next forty years to 55 percent.[6] The last time the U.S. homeownership rate was that low was in the years immediately following World War II.



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4 Goodman, L. Pendall, R. and Zhu, J. (2015, June). Headship and Homeownership: What does the Future Hold? Retrieved from https://www.urban.org/sites/default/files/2000257-headshipand-homeownership-what-does-the-future-hold.pdf

5 U.S. Census Bureau. (2001 - 2018). DP-1: Profile of General Demographic Characteristics: 2000 and PEPASR6H: Annual Estimates of the Resident Population by Sex, Age, Race, and Hispanic Origin for the United States and States: April 1, 2010 to July 1, 2017. Available from https://www.census.gov/data/datasets/2017/demo/popest/nation-detail.html

6 Zandi, M. (2019, May 2). Moody's Analytics economist calculations using U.S. Census projections of population shares and Current Population Survey/Housing Vacancy Survey.

The MBA graph above underscores that a disproportionate amount of homeownership growth will come from the Hispanic community at the same time as the Non-Hispanic White population pool of prospective home owners shrink.

II.) Unique characteristics of the Hispanic Market

Despite the pivotal role Hispanics will play in driving housing demand for decades to come, the current mortgage market is not set up to serve the unique characteristics of Latinos well. Many of today's potential Hispanic homeowners are creditworthy and have sufficient household income to support a mortgage. But, because they are more likely to be self-employed, earn non-W2 wages, utilize pooled resources within a multigenerational household, and are more likely to pay for household expenses in cash rather than credit, they are more likely to be denied a mortgage loan. Today's mortgage structure and regulations rely too heavily upon easily-documented W2 income and do not sufficiently recognize the entrepreneurial practices so prevalent in the Hispanic community. Because of this, lenders consistently fail to accurately assess the risk and repayment capacity of many otherwise credit-worthy Hispanic borrowers.

A) Prevalence of Non-W2 borrowers

Latinos are more likely to be self-employed or work non-traditional, "non-W2" jobs than the general population. Of note, while the number of businesses in the U.S. declined in the years following the financial crisis, the number of Latino-owned businesses grew by nearly 50 percent.[7] To underscore the rapid growth in Latino entrepreneurship: nearly half of Latino-owned businesses were started in the last six years.[8] Additionally, Hispanics and African Americans are more likely to participate in the gig economy, with 31 percent and 27 percent reporting nontraditional earnings, respectively.[9] However, mortgage underwriting rules remain notoriously challenging for those who don't earn their income through a traditional paycheck from a full-time employer.

B) Multi-Generational Households and Non-Borrower Income Access

In 2016, 27 percent of the Hispanic population and 26 percent of the Black population lived in multi-generational households, compared to the general population at 20 percent and the non-Hispanic White population at 16 percent.[10] However, mortgage underwriting rules do not allow for any flexibility based on individual family circumstances or the overall financial contributions of members of the household.

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[7] Stanford Latino Entrepreneurship Initiative (2017). State of Latino Entrepreneurship. Stanford Graduate School of Business. Retrieved from https://www.gsb.stanford.edu/sites/gsb/files/publication-pdf/report-slei-state-latino-entrepreneurship-2017.pdf

[8] Kramer Mills, C., et al. (2018, November 13). Latino Owned Businesses: Shining a Light on National Trends. Federal Reserve Bank of New York and Stanford Latino Entrepreneurship Initiative.
Retrieved from https://www.fedsmallbusiness.org/analysis/2018/latino-owned-small-businesses-national-trends

[9] Edison Research. (2018, December). The Gig Economy. Marketplace-Edison Research Poll 2018. Retrieved from https://www.edisonresearch.com/americans-and-the-gig-economy/

[10] Cohn, D. and Passel, J. (2018, April 5). A record 64 million Americans live in multigenerational households. Pew Research Center. Retrieved from https://www.pewresearch.org/fact-tank/2018/04/05/a-record-64-million-americans-live-in-multigenerational-households/

III.) NAHREP Urges the CFPB to Extend the Patch until it is Replaced by an Alternative that Better Captures a Consumer's Capacity to Repay

Few policy changes would more negatively impact Hispanic homeownership than the expiration of the "QM Patch." A recent Urban Institute study found high DTI GSE borrowers are disproportionately minority borrowers with incomes that are, on average, less than those of borrowers with lower DTIs.

Loan Distribution by DTI and Race or Ethnicity (Percent)

Race	≤43%	43-45%	45-50%	>50%	>43%
Hispanic	**6.4%**	**9.4%**	**8.4%**	**8.3%**	**8.9%**
White	83.2%	77.6%	77.3%	76.9%	77.4%
Black	3.5%	4.2%	4.0%	9.3%	4.5%
Asian	6.0%	7.6%	9.3%	4.1%	8.0%

Source: Recursion Co. and Urban Institute

The expiration of the "GSE QM Patch" would mean that FHA would be the only remaining QM option for working class Latinos, and QM is the only dependable source of lending in the market today. This is problematic because oftentimes FHA loans can be more expensive for borrowers. Furthermore, limiting consumer choices can create market distortions that disadvantage private capital and interfere with the competitive nature of the market for these loans. At least for the full period of conservatorship, access to conventional loans should not be made unavailable to creditworthy Latino borrowers based on the application of the 43 DTI ratio alone.

The Urban Institute calculates that in 2017, about one in five GSE-backed mortgages originated in 2017 had a DTI ratio over 43 percent, and approximately one in two FHA or VA mortgages had a DTI ratio over 43 percent.[11] Hispanics are 38 percent more likely to have a high DTI loan, the most likely of any demographic.[12]

Furthermore, we support the Ability-to-Repay provision and we do not want to see a return to irresponsibly-loose underwriting standards. The difficulty today however, is that the underwriting guidelines for the calculation and verification of a borrower's income and debt provided by the CFPB in "Appendix Q" of the rulemaking are essentially an outdated and, in some places, an internally inconsistent version of prior-FHA policy. Income and debt of a borrower must be calculated per the relatively limited provisions and monthly debt payments, including the new house payment, and must stay under 43 percent of the borrower's monthly income. Self-employed borrowers and gig

[11] Kaul, K. and Goodman, L. (2018, August). What, If Anything, Should Replace the QM GSE Patch? Urban Institute. Retrieved from https://www.urban.org/sites/default/files/publication/98949/qualified_mortgage_rule_0.pdf

[12] Goodman, L. (2019, March 25). New Data Confirm the Urgency of Addressing the Expiration of the GSE Patch. Urban Institute. Retrieved from https://www.urban.org/urban-wire/new-data-confirm-urgency-addressing-expiration-gse-patch

economy workers who have multiple part-time jobs, struggle under these requirements given the complexities of Appendix Q.

The General QM category simply must become more robust, current, and sophisticated before it can support the weight of the mortgage market. We urge the CFPB to take on rule-writing efforts aimed at better understanding and to more clearly defining QM standards in order to accomplish a more flexible view of how debt and income are determined and as only one of the significant factors in determining QM status.

One statutory or regulatory option is to eliminate the DTI calculation (not its evaluation) and rely instead upon the higher-cost mortgage rules for presumptive and rebuttable presumption compliance thresholds.

NAHREP Joins Industry and Consumer Groups in Supporting the APOR+150 Model as a Replacement to the "QM Patch."

NAHREP joins a coalition of industry and consumer groups in supporting the APOR + 150-200 basis points model that would dictate the new QM status rather than the 43 percent DTI in a new risk-based pricing model. We believe this model eliminates the problematic components of the existing rule that have curtailed access to credit for segments such as self-employed borrowers, enables underwriting innovation outside of the GSE Patch, retains access to credit in a manner that is equal to today's existing infrastructure while maintaining the critical consumer protection elements established by the QM Rule, particularly, by prohibiting the problematic features that had been used to qualify borrowers without an assessment of capacity to repay – such as, no-doc or low-doc products, products based only on collateral value, and interest only, negative amortization and option ARM products. Loans originated above 150 or 200 bps over APOR would maintain strict underwriting and documentation requirements as they do today in order to protect consumers from the abuses that have been observed with high-cost mortgages.

By making the change to QM safe harbor for loans below 150 or 200 bps over APOR, the CFPB would also successfully level the playing field between the GSEs and other lenders, likely reducing the reliance of the mortgage market on government-supported entities. Finally, the APOR +150 model would do away with the problematic reliance on Appendix Q that has curtailed lending to credit worthy self-employed borrowers. We call on the CFPB do the necessary research to ensure that any threshold finds the appropriate balance in access to credit to the rapidly growing Hispanic segment while ensuring the necessary consumer protections.

IV. Conclusion

The future of the U.S. housing market is intrinsically tied to the success of Hispanic homeowners. As a market segment, Hispanics are younger and growing faster than any other demographic and are in a position to drive homeownership growth in America. It is critical that we ensure that housing policy decisions made today address the needs of the changing face of homeownership in a way that is both affordable and sustainable. NAHREP firmly believes that every individual who desires to become a homeowner and can sustain a mortgage deserves access to homeownership, and as such, we urge the consideration of the nuances that impact the Hispanic market as final rule making decisions are made regarding the expiration of the "QM Patch" and its alternatives. For any questions, please contact Noerena Limon, SVP of Public Policy and Industry Relations at nlimon@nahrep.org.

Sincerely,

David Acosta	Gary Acosta
2019 President	Co-founder & CEO
NAHREP	NAHREP