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Subject: Regulation Z

Comments on Docket No. R-1305

The item requiring the broker to assure that the borrower will be able to pay the loan for at least **seven years** is a very unreasonable expectation. This timeline and the borrower's future lifestyle are not under the control of the originator. In many cases, the borrower does not return to the same loan agent or lender.

It would be more prudent for you to tighten the control on the quality of documentation that is required, and perhaps getting rid of stated income and replacing it with a high-risk, high LTV Ratio, loan product at a higher rate so that the lender would have an appetite to take on the higher risk. This way, the borrower still has an opportunity to obtain a loan at "some" price, and the lender has full disclosure of the family's income level and assess their risk. In my experience, especially in the high cost area of the metropolitan area of San Jose-San Francisco, the LTV ratios may not have that much of a meaning in such high cost areas. Even though the house payment is high relative to overall gross income, people still manage to have about the same amount of everyday discretionary income left as in other, lower income areas of the country. I have seen families manage their affairs very well with a 50-60% LTV.

Much of this has to do with their motivation for home ownership and personal spending and savings ethic.

In conclusion, your rules should try to stay with things that can be controlled, easily verifiable, and that provide as much risk disclosure to the lender as possible during the application process on the front end. Then, it will be up to the lender if they wish to underwrite the loan and the borrower if they wish to take on the debt at the higher rate. This will essentially remove any further motivation from the originator to further influence the file.

As for the other items, I don't mind full disclosure of all points and yield spreads earned. However, for the ARMS, perhaps a gentler, incremental increase in the rates over a two-year transition period would cause less of a financial trauma than a sudden 2-point kick immediately right after the ARM period. The "marketing" mentality of low-ball pricing (marketing) needs to be removed from these loans and a soft landing period should also follow and be implemented. This would give the borrower a two year period in which to incrementally adjust to the higher rate. It would work towards minimizing the country's economic, and borrower's payment shock, that would otherwise be caused. The lenders will easily figure out a pricing formula to compensate for this. This transition period may also help people hold on to their ARM loans, since the market would evenly rise like a high tide anyway, and there would be no advantage to the borrower to shop around for a new loan and incur all the additional closing costs.

Regards,
Blas Colonna