From: "Forrest Cambell" <forrest@montereybaymortgage.com> on 04/08/2008 11:55:08 PM

Subject: Regulation Z

April 8, 2008

Members & Staff of the Federal Reserve Board

Re: Docket No. R-1305

I write to you regarding your proposal with reference to Truth in Lending and the mortgage finance industry.

I have assisted homeowners and would be homeowners for nearly 24 years now, working for banks/S&L (Great Western Bank & American Savings & Loan) and Mortgage Brokers. Currently I am the President of Monterey Bay Mortgage and throughout my career as a Mortgage Broker, I have been active with the California Association of Mortgage Brokers and the national organization (NAMB).

During my career, there have been many changes to the way money is leant to purchase and refinance a home. Technology has been a huge factor in the streamlining of the process and has assisted in bringing the costs associated with loan origination down. Hopefully, the consumer has benefited from these savings.

What I have seen consistently during my tenure is an ebb and flow of lending standards based on market conditions. When I started, my only main product was a 30 year fixed and a 15 year fixed. Debt to income ratios had to be 28% / 36% with very little exception. Loan to values rarely exceeded 80% with some exception.

Risk has always been evaluated and underwriting standards reviewed and adjusted. As home prices have increased and cash for down payments have become less, lenders looked at ways to evaluate risk with a new eye and I believe they reviewed their portfolio performance to determine if they could afford more risk.

In the last few years, money became ‘easy’ and lending standards changed dramatically. I believe most industry veterans believed it wouldn’t last, eventually home prices would soften and lending standards would change. Unfortunately, decisions were made to loosen standards to a level that didn’t make sense but fed the machine of loan production. Unfortunately for too many Americans, this has turned the dream of homeownership into a nightmare.

Throughout my commentary of this proposal, there are many things I want to point out. I would like to start by saying, real estate markets have always ran in cycles. Demand has reached feverous levels and caused buyers to panic and bid up asking prices to assure their offer would

be accepted. This has happened when lending standards were easy and when they were tight. Many older people will tell you of paying 21% on their third deed of trust when they purchased their home in the late 70's early 80's. As real estate runs in cycles, so do property values and so do lending standards.
My concern with this proposal and many legislative proposals has to do the potential over reaction by our government to regulate markets that have always ran in cycles and have the ability to correct themselves. I believe government regulation is necessary and prudent, but knee jerk reaction to market cycles and the minority of loans made over the last five years is over reactive and damaging to the real estate market and our overall economy.

I support the part of the rule dealing with misleading advertising and deceptive practices. I have had to counsel clients "off the ledge" from believing they could obtain a 30 year fixed rate loan at 1% because they heard it on the radio or received a letter from a lender they had never heard of. There have been too many abuses with regards to advertising and overall misleading of consumers. Strengthening these laws seems to be necessary to combat the practice. My concern is when current laws were written, did the legislators/regulators believe these laws would curb the same practices still in effect. Why isn't regulation and the policing of current advertising and consumer protection laws being enforced to stop this type of practice?

Overall I OPPOSE the rule for the following reasons:

High Cost Mortgage Threshold: The desire to protect consumers from abusive sub prime lending is understandable. However, the threshold is excessively too low in the current interest rate environment. Current prime jumbo loans would fall within this threshold. As the market has predominately stopped making sub prime loans as investors have no interest in buying those loans, the cycle of self correction has been applied. This rule would hurt the majority of borrowers that are prime borrowers.

Additionally, if you look back historically comparing conforming fixed rate interest rates obtained from your website to the corresponding treasury rates, you will see during parts of 1980, 1981-1982 conforming prime mortgages would have been subject to this rule.

I don't believe it is the intention of the Federal Reserve to over regulate and hamper the ability for prime borrowers to obtain mortgage financing. These borrowers demonstrate a greater financial knowledge, experience and success which should allow them to be treated as adults rather than children needing protection.

These prime borrowers would have their loan options severely limited. Homeowners that currently have performing mortgages obtained as stated income or Alt-A would be trapped in their current mortgage and potentially would never be able to refinance. Their equity in their home would not be allowed to be used to send their children to college, used for medical expenses, debt consolidation, etc. Potentially they may never be able to purchase another home. Future homeowners would not be able to use Alt-A, stated income, etc to purchase their home based on this proposed rule.

The limitations with regards to loan amortization would also limit consumer choice. I for example purchased my current home with a negative amortization loan. A year later I refinanced into a loan fixed for 5 years and as interest rates dropped, I refinanced into a loan fixed for 10 years, securing a lower interest rate for a longer term.

Similarly, the proposal to limit prepayment penalties limit consumer options. Personally, I am not a fan of prepayment penalties, I believe they typically benefit the lender but they do have their place. A lender wants a consistent revenue stream; the borrower’s ability to repay the loan is part of that consideration. A lender can be encouraged to offer a lower interest rate or margin (for an adjustable rate loan) in exchange for the borrower guaranteeing they will not pay off the loan early. The lender may offer to pay the borrower’s closing costs in exchange for a prepayment penalty.

The proposal to require prepayment penalties to expire prior to an interest rate change sounds good but does not work with any type of loan that would adjust monthly or semi annually.

The borrower should be made aware there are options and a prepayment penalty is not mandatory but the borrower should be able to decide if his/her scenario allows for the potential cost savings by agreeing to keep a mortgage for a set period of time.

Stated income loans have been available almost the entire time I have been making loans. There are many cases a stated income loan does not make sense but there are more cases where it does make sense. My preference would be for stated income loans to be replaced by no income loans. In this scenario the borrower (or anyone else involved in the transaction) would not make up information to be able to qualify. The lender could evaluate the other components of the loan (credit, collateral, assets, reserves) to determine if the risk was offset enough to approve the loan. Lenders/investors would charge a higher interest rate offering the borrower the option to either provide documentation to qualify or not. No income loans would remove the fraud aspect from qualifying for a loan and the market would determine what the interest rate should be.

Not allowing lenders, mortgage brokers to speak to the appraiser is not necessary and will cause harm to the industry lessening the satisfaction of the borrower. Borrowers should be entitled to know if their home can appraise within a range of value prior to incurring hundreds or thousands of dollars for an appraisal to “see” what a particular appraiser determines. Appraisals are not a science or something with enough consistency to assume one appraisal accurately reflects the market value. Some appraisers are better than others at truly evaluating market demands, comparable sales, neighborhoods and determining a value. The lender/mortgage broker serves as a buffer for the consumer to provide some assurance the consumer’s payment for an appraisal is not wasted.

Finally, I strongly oppose the part of the rule singling out Mortgage Brokers and implying yield spread premiums are a disadvantage to the consumer. Each lender that makes a loan has an incentive to sell the consumer a higher interest rate. When one segment of the market place is singled out and made to comply with excessive regulation and disclosure, consumers will falsely assume they are paying more by using a Mortgage Broker. Banks, Credit Unions and all lenders should operate from the same level of disclosure. This is unfair to small business and misleading to consumers.

Thank you for your time and consideration.

Sincerely,

Forrest Cambell

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