From: "Jon Bodan | The Perpetual" <jon.bodan@theperpetual.com> on 04/01/2008 12:55:03 PM

Subject: Regulation Z

To Whom It May Concern:

I am writing today to express my deep concerns about the Federal Reserve's proposed rule, as it pertains to mortgage lending. As a competent, experienced, and honest mortgage broker and business owner, I have real misgivings about the ill-advised proposals in the rule. These items will cause untold grief, heartache, and negative economic impact on consumers, lenders, business owners, and government. They will shut off the ability to borrow to many, many American consumers. This will cause the "wealth effect" that our economy relies on to disappear, due to the inability of consumers to purchase homes. This will ripple and cause job loss and unemployment to rise drastically due to the reduced demand for housing, housing related products, home improvement, retail, and so forth. It is disastrous.

1) I am diametrically opposed to the proposed ban on stated income and no-doc lending. This will render millions of hard-working American entrepreneurs unable to obtain mortgage financing, including myself. Due to the current tax code, entrepreneurs are forced to write off many expenses on their tax returns which lower their tax burden - and keeps them in business and employing people - but it makes it very difficult for them to access traditional credit. If stated income & no-doc lending is banned, you will put a tremendous amount of pressure on an already stressed housing market, by artificially reducing demand in the marketplace for homes, which will put negative pressure on home values, which will in turn cause more families to be foreclosed upon (because they can't sell the property for what it's worth due to less buyers in the market), which will curtail consumer spending, and this in turn will harm the economy and cause jobs to be lost. Obviously, this is a negative thing.

However, I do support restrictions being placed on stated income and no-doc loans. For example, a retired individual with fixed income should not be allowed to do a stated income loan without proving significant assets from which they can draw funds. Abuses of loopholes such as this resulted in predatory lending. However, the responsible use to qualified borrowers of lower documentation loans opens the American Dream of homeownership to many families that could not otherwise buy a home.

I will give an example. I am a business owner. I employ over 10 people in my companies. Due to the way my tax returns are structured, I can not prove some portions of my income to the satisfaction of a banking institution, even though they are all adequately disclosed on my tax returns. This is because of the way banks underwrite tax returns and self-employed borrowers. As a result, when I finance my properties I have to go stated income. I have impeccable high 700 credit scores, and liquid and other real assets. I am clearly a responsible and qualified borrower. However, if stated income and no-doc loans are banned, I will be unable to access credit, in spite of my clear qualifications. This would be wrong, immoral, and irresponsible for the Federal Reserve to cause.

2) I am opposed to the new high-cost APR triggers. This is a ridiculous proposal. The 10-year Treasury yield is currently about 3.5%. 3% above that will be a 6.5% rate. MANY, MANY borrowers do not qualify for a rate this low. To place additional documentation,

disclosure, and restrictions on such a loan will be housing market suicide. Lending will be taken back to the 1970s where a borrower can only purchase a house with perfect credit, 20% down, and a "typical" job with a W2. Banks will cease to lend and the housing market will crater. Our economy could not survive a credit crisis like this.

The rule for 2nd mortgages, 5% above the 10-year Treasury yield, is equally ridiculous and not grounded in reality. 2nd mortgage lending is based on the Prime Rate, not the 10yr Treasury. This obvious mistake, quite frankly, makes me wonder about the education level of the individuals writing the proposed rule. As recently as 6 months ago, the 10yr Treasury yield was 4%, while the Prime Rate was around 8%. That would require that the banks only be able to do 2nd mortgages at or near Prime Rate, or better - which is completely unrealistic since banks must price loans according to their risk. Loans priced at Prime Rate must be reserved for the best borrowers - and not all people can qualify for that. As a result - lending volume will decrease drastically due to the inability of financial institutions to price loans according to the risk.

3) The rule requiring Brokers only to disclose what their total compensation is - when it is already disclosed on the Good Faith Estimate as a range of Yield Spread Premium - as well as on the HUD statement - AND in the "Mortgage Loan Origination Agreement" - AND in other state-specific disclosures - is simply unfair to brokers and it is also clearly anti-small business. It is also confusing to the consumer. Since banks and correspondent lenders do not have to disclose ANY of those things - not even on the HUD statement - why should the small, independent business owner have to disclose that 5 times to their borrowers? One borrower walking away from a transaction over this unfair proposal could ruin a business in these difficult market conditions. If the rule is fair to all lending institutions, brokers included, BANKS, CORRESPONDENT LENDERS, CREDIT UNIONS, and other institutions should be required to disclose to the consumer their Service Release Premium, which they earn when they sell the mortgage on the secondary market - which is the same thing as a Yield Spread Premium that a broker earns by selling the mortgage to a bank. It is the exact same process and mechanism - the difference is that there has been an uneven playing field for brokers for years because they have always been required to disclose this - in spite of consumers not understanding it - when banks have not. This rule, should it pass, will cause the independent mortgage broker firm to close, and the big banks will take over. This will put thousands of people out of work, and cause many small businesses to fail. People will be ruined.

4) An originator cannot be realistically required to determine if a borrower can afford a loan for the next 7 years. That is the role and responsibility of the UNDERWRITER of the loan. The originator is a salesperson. They are responsible for understanding the client's needs and goals, and for putting together a loan package that is appropriate. It is impossible for an originator to determine if the loan is affordable - what happens in the event of a divorce, family emergency, disability, job loss? No one can predict the future. That is why banks price loans according to the risk perceived in them when they are underwritten. They have created their loan guidelines according to statistical and actuarial data, and they attempt to predict the future payment activity of a borrower based on past data. An amorphous and vague requirement such as the one proposed will simply increase the amount of potential liability on the originator, and it will add another impediment to getting a loan for a borrower - ESPECIALLY underserved and lower income families. It is not the place of the originator to decide if a family can purchase a home - it is the underwriter's decision - and they carry the liability for the performance of the loan.

Sincerely,

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