August 3, 2006

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
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Docket no: OP-1253

Dear Ms. Johnson:

We know there are problems with the loan industry; I believe they have already been disclosed by others. Because the mortgage industry has become every creative the FRB and respective government bodies needs to come up with some creative solutions of their own. I believe unknown to the FRB is that a new trend in the mortgage market (as of June of 2006) that is happening in California; There are now loans that allow people to purchase homes with 0% down with a negatively amortized loan all without showing proof of their income on their mortgage application through a stated income loan! As long as the solutions cover the entire US banking and lending industry that industry will remain innovative and competitive.

With that said, here are some creative solutions;

- Give the IRS access to all loans for auditing purposes. This should scare many self employed people from committing both tax and mortgage fraud.
- Since inflated appraisals are a huge problem, the FRB should recommend that states require appraisals to be done by the county government. This added bureaucracy will not add budgetary problems since home buyers will now pay for this service directly to the county.
    - This will stop loan originators and brokers from going down a list of "friendly" appraisers to find one that will get the deal done at any cost to the consumer.
- Erase the section on appraisal order forms where the loan amount is stated, purchase price is stated, and the estimated home value is stated. This gives appraisers a "number to hit" in order for the deal to go through. This also will increase appraiser independence.
- Require minimum wage for "loan call centers" and loan telemarketers. Some mortgage trade associations are advising against this. But if people are working strictly commissioned based, and are unlicensed I feel that these people will say anything to get a loan to go through just so they can put food on the table.
- Not allow over night funding by the FRB to banks that offer stated income loans.
- Restrict banks from merging that allow stated income loans.
- Recommend to the SEC to stop allowing the selling of Mortgage back securities (MBS) which have stated income loans in the pool of loans.

- Not allow banks to fund over 3-5% of there loans on a given year to negatively amortized loans. In 2003, 2002, and 2001 there were less than 2% of all loan originated that allowed negatively amortization. In 2005 that number skyrocketed to almost 30% of all loans originated in the San Francisco Bay Area. I don't want to see the rest of the country to follow this trend.
- Require all loan originators that will originate loans that have the capability of being sold on the secondary market to undergo rigorous training to resemble the series 7 with the securities industry.
    - This will encourage people going into originating loans to be more professional, and less willing to commit fraud if they worked for months to become licensed.
- Not allow CRA credit to be given on stated income loans. Some lenders are encouraging mortgage brokers and loan officers to state a lower income for some borrowers so the bank can receive CRA credit. This practice rewards the loan officer with a high commission or Yield Spread Premium (YSP.)
- Not allow Fannie Mae and Freddy Mac to purchase loans that have stated income loans in the MBS.
- Require all banks to disclose how many loans are funded that do not use proved income to produce an underwriting decision. This includes no ratio loans, stated income loans, and No Income No Asset loans (NINA).
- For Fannie Mae's automated underwriter to require income verification. This will prevent banks from encouraging loan officers to manipulate fraudulent numbers on the automated underwriting programs to get stated income loans done with fully documented interest rates.
- Lower the points and fees threshold to 2% of the total loan amount for loans over $200,000 and 4% for loans below $200,000
- Limit the amount of yield spread premium (YSP) a mortgage broker of loan officer may receive to 1%. Allow an exception only if extra YSP will go to pay for the consumers closing costs. But after closing costs are paid no more than 1% of YSP can go into the pocket of the broker.
- Implement a possible commission structure for mortgage brokers similar to the insurance industry. It is a currently bad practice to give mortgage brokers the power to make up there own commissions up to 5-8% of the loan amount. This would limit discrimination dramatically.

The American dream is to own a home. The American dream is NOT to loose that home to foreclosure. The American dream is NOT to make payments on that home for the rest of your life because of interest only loans. I don't believe any American has a dream of constantly making mortgage payments on there home, only to see the balance of their loan go up every month through negatively amortized loans for the rest of their life.

Humbly submitted,

Steven Krystofiak
A Mortgage Broker in California