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Comments:

April 4, 2008 Jennifer J. Johnson Secretary Board of Governors of the Federal Reserve System 20th Street and Constitution Avenue, NW. Washington, DC 20551 RE: Regulation Z; Docket No. R–1305; Truth in Lending Dear Ms. Johnson: On behalf of the board, staff, and supporters of Housing Opportunities Made Equal of Virginia, Inc. (HOME), I am writing in response to the Federal Reserve Board's request for comment on changes to Regulation Z (Truth in Lending) to protect consumers from unfair or deceptive home mortgage lending and advertising practices. The mission of HOME is to ensure equal access to housing for all people. Where we live is one of the most important choices we make. It creates – or denies - opportunities for us, and ultimately for our children. Moreover, the ability to own your own home gives you access to equity which can be used for education, home improvements or to start your own business. Housing is more than shelter; it's more than an investment: it is a very real part of who we are. It contributes to a sense of identity, stability and security, strengthening families and giving both adults and children a sense of refuge and well-being. Unfortunately, unfair, deceptive, and abusive lending practices threaten the equity and financial stability that homeownership provides to Virginia families. We encourage the Federal Reserve Board to continue to take action to promote and preserve homeownership in our country. Home foreclosures in the state rose to unprecedented totals in 2007. Driven by mortgage defaults on adjustable rate and subprime mortgages, thousands of Virginians will lose their homes to foreclosure this year. Consequently, there is a need for stronger protection in these and all loan transactions. We respond to specific components of the proposed regulations below. On "higher-priced mortgage loans" secured by a consumer's principal dwelling: Ability to Repay: HOME supports requiring mortgage loans to be written on the basis of a borrower's ability to repay the loan and not on the value of the home. In the case of an adjustable rate mortgage, a borrower's ability to repay should be based on the fully indexed rate and include the cost of taxes and insurance. Income Verification: Stated income, or “low doc,” loans increase a borrower’s risk of receiving a loan that is unsuitable and unaffordable. HOME supports prohibiting stated income loans for all subprime and adjustable rate mortgages. Prepayment Penalties: Prepayment penalties can trap borrowers into abusive loans with high interest rates. HOME supports making it mandatory for prepayment penalties to expire at least 90 days before teaser-rate loans transform into high-rate products. For fixed-rate subprime loans, prepayment penalties should be limited to two years. Escrowed Taxes and Insurance: Advertising that shows a low monthly payment without including taxes and insurance is a common deceptive practice. Unfortunately, the unexpected annual payment can drive borrowers into default. An easy solution is to require taxes and insurance be escrowed for all subprime and adjustable rate mortgage loans. Moreover, lenders offering these loans should not be able to advertise the estimated mortgage payment without including taxes and insurance costs or a large-print disclosure noting the proposed monthly payment does NOT include the costs for taxes and insurance. For all mortgage loans: Yield Spread Premium Disclosures: Yield spread premiums provide an incentive for mortgage brokers to sell a loan with a higher interest rate although the borrower could have qualified for a less expensive one. Although industry representatives claim that YSPs are used to lower closing costs, research shows this is rarely the case. Instead, homeowners shoulder the increased cost in inflated interest rates and other fees. Disclosures about this form of compensation are not enough and merely shield liability for mortgage brokers. Because this market mechanism provides no benefit to the borrower, HOME supports ending the practice of yield spread premiums. Mortgage Servicing Abuses: Increasing numbers of borrowers have discovered the company servicing their mortgage is failing to credit payments properly, require escrow payments, and/or respond to inquiries about the status of the loan. This can lead to the imposition of unjustified fees, default, and the ultimate loss of the home. Such mortgage servicing abuses should be prohibited. HOME thanks the Federal Reserve Board for the opportunity to comment. Mortgage products offered to homebuyers should be priced on the basis of risk and suitable to a borrower’s circumstances. As important as it is for more Virginians to become homeowners, it is equally important to keep them there. We commend the Federal Reserve Board for taking these first steps to promulgate improved regulations in the mortgage lending market. Sincerely, Helen M. O'Beirne, MSW Director, Center for Housing Leadership Housing Opportunities Made Equal of Virginia Inc. (HOME) 700 E. Franklin St. Suite 3A Richmond, VA 23219 804-354-0641 x128 (p) 804-354-0690 (f) helen@phonehome.org