

CANICCOR RESEARCH

P.O. Box 426829, San Francisco, California 94142-6829
Phone: (415) 282-8497 - e-mail: caniccor@mindspring.com

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Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Docket No. OP-1253
Home Ownership and Equity Protection Act Hearings

Dear Ms. Johnson:

I am writing on behalf of the investors who are copied in this letter. They hold investments of over \$19 billion under management, which include equity investments in most of the major housing lenders. As part of their general social policies, these investors meet with many of the major lenders regularly on matters related to community reinvestment. While we have not testified at the recent hearings, we wish to provide our input on this issue, and were prompted by a recent draft letter circulated by the California Reinvestment committee.

HOEPA

Coverage:

We would recommend expanding HOEPA to cover purchase loans and home equity loans particularly because of the recent expansion of the subprime industry into purchase loans due to high housing prices. With present HOEPA limits, the 2004 HMDA data show 0.5% of purchase loans with rate spreads of greater than 8.00%. This percentage is essentially the same as that for refinance loans, which are covered. No data are available for home equity loans.

Thresholds:

In discussions with a number of lenders such as CitiFinance and Wells Fargo Financial, the agreement of the state attorneys general with Household in 2002 as well as the change in HOEPA thresholds, clearly sent a signal to reduce both upper interest rates and points and fees.

The 2004 HMDA data show that the percentage of loans with rate spreads at over 8.00%, the HOEPA reporting limit, was only 0.5% of those loans reporting spreads, i.e. 4,580 refinance loans. This number includes a few loans with a rate spread of more than 8.00% but not specifically labeled HOEPA. A slightly larger number of 5,858 loans, of which two-thirds had no reportable rate spread, were classified as HOEPA loans by exceeding the limits on points and fees but not rate spreads. Thus the HOEPA loans appear to be bifurcated into those with either high rate spreads or high points and fees, since few borrowers could afford a loan with both limits exceeded.

We recommend reducing the threshold on **rate spread** to 7.00%, since it would only affect another 1.8% of refinance loans with reportable rate spreads and 0.9% for purchase loans, if they were subject to HOEPA. Reducing the threshold to 6.00% should be considered but it would cover a much larger total of 6.6% of refinance loans with reportable rate spreads in 2004.

Regarding the **points and fees**, the inclusion of yield spreads in the threshold for HOEPA would be more important than lowering the limit rate spread threshold at this time, and would even the playing field between retail and wholesale lines, especially now that wholesale has become so dominant.

We recommend limiting the threshold of **points and fees** to 5%, exclusive of the yield spread. Many of the major banking institutions have now limited their points and fees to 5% or less, and this threshold would bring the smaller shops into line with the larger ones. Yield spreads to brokers are usually less than 2% for these larger institutions with wholesale lines. Thus points and fees, including yield spreads, should be less than 7%.

RELATED TOPICS

Prepayment Penalties

With the recent rapid rise in interest rates, the limiting of the prepayment penalties to the first interest period would help to eliminate teaser rates, which the less sophisticated borrower might accept without much foresight. Thus more realistic interest rates would be applied right from the beginning of the loan.

CRA Requirements: Assessment Areas

Because national banks and federal savings institutions are now largely exempt from local laws in the area of predatory lending, many mortgage and finance subsidiaries of the overall corporation have been brought into the depositories as their subsidiaries. To counter balance this effect, the assessment areas of depositories should be redefined, perhaps with two levels: deposit areas and lending areas. Both areas, in which lending by depository and its subsidiaries occur, should be subject to the CRA Performance Examination. For large mortgage subsidiaries the lending area should be subject to some minimum limit. For example, set a limit for each MSA/MD of more than 30 loans.

HMDA Disclosure: Additional Reporting

The present up-surge in interest rates and housing prices has fostered the development of various loan products such as interest only loans. We urge that additional information be provided in the field labeled "Loan Type" in the HMDA data, which now only differentiates among Conventional, FHA and VA loans.

Estimates of total residential loan production for all purposes in 2005 by loan type are as follows:

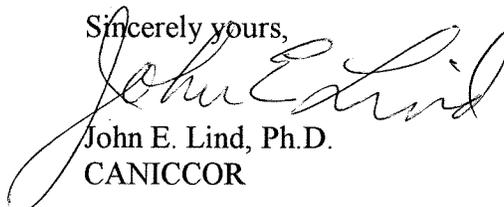
Loan Type	*Per Cent 2005 Production
Interest Only	21%
Payment Option ARMS	7%
Alt-A	12%
B&C	24%
FHA/VA	3%
*Computed from data in "Mortgage Industry Directory", 12 th ed., p. 2-2, SourceMedia, 2006	

Regulation Z: Truth in Lending

We suggest that Regulation Z (Truth in Lending) require that, if the borrower is not proficient enough in the language of the loan documents to understand the loan documents and conditions, a reputable translator unrelated to the broker, be required to be present and to certify that the terms of the mortgage have been explained to the borrower.

We appreciate this opportunity to comment on the Home Ownership and Equity Protection Act and related issues, and I submit these comments on behalf of those listed below to receive copies.

Sincerely yours,



John E. Lind, Ph.D.
CANICCOR

cc:

- Sr. Susan Vickers, Catholic Healthcare West
- Harry van Buren, Staff to the Episcopal Church's Social Responsibility in Investments Program
- Patricia Zerega, Evangelical Lutheran Church in America
- William Somplatsky-Jarman, Mission Responsibility through Investment Committee, Presbyterian Church (USA)
- Sr. Valerie Heinonen, Mercy Investment Program
Sisters of Mercy Regional Community of Detroit
Dominican Sisters of Hope
Ursuline Sisters of Tildonk-United States Province