

From: "Michael Blomquist" <michael@msp9.com> on 02/05/2006 11:20:05 AM

Subject: Interagency Guidance on Nontraditional Mortgage Products

To whom it may concern,

How can it be that only 5 years after the biggest stock market crash in history our regulators have allowed and even assisted in the creation of the biggest bubble of all time? The housing bubble.

It has been said that it is better late than never, but it is now time to stop the madness. More studys and reports by biased lenders will not solve the issue. The lack of disclosure and tracking by lenders about the option ARM and growing number of loans with limited or no documentation should be enough to prove my point. All of the mainstream lenders are also growing their sub-prime divisions.

CFCs

<http://about.countrywide.com/presentations/docs/4Q05%20Conference%20Call%20Slides%20FINAL.pdf>

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- 1) Option ARMs in portfolio are up 455%
- 2) CFC is now charging 3 pts to originate option ARMs, many other lenders are still not charging any points. Obviously there is problems with these loans in the secondary market.
- 3) Delinquencies were previously reported at 60 days and now have been pushed back to 90 days. When asked on the conference call CFC did not state why they pushed back delinquency time frames, but did state that 60 day delinquencies are at .12%, making the total of 60 and 90 day delinquencies at .22%. This is a HUGE increase given the borrowers ability to make minimum payments. As interest rates continue to rise this problem will increase exponentially, especially when many of these loans are recast in 2007 & 2008.
- 4) These loans should have never been allowed to be originated with limited or no doc guidelines, #3 supports this statement.
- 5) As property values continue to decrease and neg-am continues to increase the LTVs and RISKS will also increase exponentially. This will make the S&L crisis look like a picnic.
- 6) There is a lack of disclosure as to loan size and areas where the option ARM loans are originated. My guess is there is concentration in the most vulnerable, bubble markets like CA and Florida. This should add to concerns!
- 7) Start rates and minimum payments have always been too low, especially in the current rate environment.
- 8) Lenders state that these loans have been around for years, but not with these payment caps (7.5%) per year vs 2% to the rate per year. Limited doc guidelines were also much more strict in prior years.
- 9) Lenders have stated that they only market this product to the secure and savy home owner, but this is obviously not the case.
- 10) Financial reporting of these loans are a joke. Why lenders are allowed to book income/asset growth and not pay taxes on negative amortization is asinine. No wonder this is such a popular loan.
- 11) There are plenty of other issues. I would be happy to pay for my travel costs to express my concerns if you decide on a formal hearing.

I have been writing to the FDIC and other regulators for years about the dangers of the option ARM loans and the problems with the limited/no doc

underwriting guidelines. In my estimates 50% or more of all home owners in California can not afford their homes. This problem is only getting worse.

I don't know if you really understand the mechanics behind the option ARMs, but borrowers payments can easily triple once their loans are recast into 25 year amortized loans. Negative amortization has been low because rates have been so low.

The reason defaults have been low are the increased appreciation and decreased lending guidelines. Extremely easy access to debt paying capital has temporarily boosted lender profits and promoted our unsustainable spending habits.

I have become disgusted at hearing how sub-prime lenders, pay check lenders and now mainstream lenders such as GDW, WM and CFC are fulfilling needs. The truth is they are ruining this country and have us over-burdened in debt.

More disclosure will not solve the problems. After 14 years of mortgage experience I can guarantee that 5% or less of borrowers really read and understand disclosures. Borrowers only see what they want to see and that is the payment.

You should completely eliminate the origination of the option ARM until 2009 when you can accurately assess the performance.

If you have any questions I would be happy to help.

Best wishes,

Michael S. Blomquist
Michael Scott Properties, Inc.
President/Broker
18234 Daves Avenue
Monte Sereno, CA 95030
408-399-0590 ph
408-399-5218 fax
<http://www.resourcerealty.com>