ING DIRECT

August 15, 2007

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

RE: Docket No. OP-1288, Public Comments re Home Equity Lending Market

Dear Ms. Johnson:

ING Bank, fsb ("ING DIRECT") appreciates the opportunity respond to the Board of Governors of the Federal Reserve System's ("Board") request for comments regarding possible future regulations under the Home Ownership and Equity Protection Act. By way of background, ING DIRECT has over $74 billion in assets and provides retail banking services and financial products to individuals and businesses across the United States. Approximately $20 billion of those assets are made up of mortgage and home equity loans. ING DIRECT supports the Board's efforts to curb lending practices that are unfair, deceptive or abusive. ING DIRECT does not originate subprime mortgage loans, but provides these comments as a major mortgage lender.

The Board has asked the public to comment on a number of questions, including whether lenders should be required to underwrite all loans based on the fully-indexed rate. While ING DIRECT supports conservative underwriting standards, the Board should be careful not to enact overly broad regulations that could have unintended effects. ING DIRECT believes that while it may be appropriate in certain circumstances to underwrite based on the fully-indexed rate (including loans where there is high loan-to-value ratio), mortgage lenders should also be able to make reasonable forecasts about the borrower's future income over that period. Any requirement to underwrite loans on the fully-indexed rate while simultaneously fixing a borrower's future income, while giving the appearance of providing protection to consumers, would also serve to deny credit to many consumers who have outstanding credit histories and whose income is expected to grow during the term of the loan.

This would be an irrational outcome, especially when such a requirement is not made in context with other significant risk characteristics of a loan (e.g., net disposal income). The relevance of fully-indexing should be aligned with the tenure of the initial fixed period – the shorter the fixed interest period, the more relevant some sort of indexing beyond the initial debt-to-income ratio is. ING DIRECT believes that any regulations that are promulgated by the Board in this area should be straightforward and be financially realistic through all economic cycles.

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The Board asked how restrictions on low doc loans would affect consumers and the types and terms of credit offered. ING DIRECT feels that the amount of documentation required on a loan is more properly a function of loan risk and prudent risk policies than federal regulation. Low doc loans may, for example, be appropriate for relatively low loan-to-value ratios for individuals with good credit histories. Further, we note that the level of documentation required from the borrower represents only a portion of the diligence performed on a loan. For example, the creation or presence of equity in conjunction with credit reporting that demonstrates consistent prior debt payment performance are two critical factors in evaluating credit. If the Board eliminated the low doc loan option in the non-subprime market it would have at least two unintended effects: (1) it would increase the processing time of those loans; and (2) it would increase loan origination costs, meaning borrowers could face higher closing costs or a higher interest rate, or both.

The Board asked whether escrows for taxes and insurance should be required for subprime mortgage loans and how escrow requirements affect consumers and the type and terms of credit offered. We believe that it is imperative that the financial obligation of providing funds to cover taxes and insurance be measured as part of the monthly debts in measuring the capacity to repay the loan and that proper disclosure of the requirement to pay taxes and insurance should be given. ING DIRECT notes, however, that mandating escrow increases costs for those borrowers who are sophisticated enough to pay taxes and insurance on their own and we believe that non-subprime borrowers are better served by having the freedom to invest their money rather than having it tied up in a escrow account.

Finally, the Board asked a number of questions related to prepayment penalties, including whether such penalties should be restricted and how restrictions on prepayment penalties would affect consumers and the type and terms of credit offered. ING DIRECT agrees with those consumer advocates who are concerned about prepayment penalties that extend beyond the expiration of short-term introductory or teaser rates. We believe, however, that any regulation concerning prepayment penalties needs to balance the costs vs. the benefits of those penalties. As it stands right now, the ability to impose prepayment penalties gives lenders some assurance that they can recover the costs of making the loan and thereby allows lenders to offer lower closing costs and lower interest rates. It is therefore not in lender's or borrower's interests to overly restrict prepayment penalties. ING DIRECT believes, however, that adequate disclosure of the presence of such penalties – and what borrower behaviors trigger those penalties – is crucial and that appropriate regulation in that area may be warranted.

CONCLUSION

You may note that ING DIRECT has not commented on the Board's initial question: "whether it should use its rulemaking authority to address concerns about the loan terms or practices" listed in the Federal Register notice. That is a public policy question perhaps best left to others. What ING DIRECT can comment on, however, is on the content of any proposed regulation and its effect on consumers. ING DIRECT feels that while abusive lending practices should be curbed by the Board, it should be careful in any rulemaking not to penalize consumers who have good credit histories by removing financial options such as low doc loans or by requiring escrow accounts. We believe that many of the areas currently at issue are better addressed by sound risk management policies, which all lending institutions should be required to have, than by regulations that could overly restrict credit and increase costs to borrowers. We feel that lenders should be sure to understand their borrowers and that both borrowers and lenders should fully understand the risks that are involved.

Thank you for the opportunity to share the views of ING DIRECT. If you have any questions or if I can be of further assistance please do not hesitate to contact me at 302-255-3008.

Very truly yours,

Deneen D. Stewart
General Counsel
ING Bank, fsb

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