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August 9, 2007

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

RE: Docket No. OP-1288

Dear Ms. Johnson:

We urge the Federal Reserve to expeditiously implement strong protections against abusive lending per the Federal Reserve's authority under the Home Ownership and Equity Protection Act (HOEPA). Our position is based on policy adopted by the U.S. Conference of Mayors in June which calls on "regulators to protect mortgage consumers from unfair practices, especially with respect to subprime loans that can lead to mortgage foreclosure." It is estimated that close to two million families face dire financial circumstances and/or foreclosures when the interest rates on their adjustable rate mortgages (ARMs) reset and climb higher this year and in 2008.

We encourage Federal Reserve Board to build upon the protections contained in the recently adopted interagency statement on subprime mortgage lending (Federal Register, July 10, 2007). We believe that strong limits and prohibitions must be applied to non-traditional and high-cost loans in order to prevent unfair and deceptive lending in violation of HOEPA:

- **Prepayment penalties:** The Federal Reserve must apply strict limits to prepayment penalties. Prepayment penalties must not apply after the expiration of teaser rates in ARM prime and subprime loans. The recent interagency statement on subprime lending recommends that lenders terminate prepayment penalties 60 days before the expiration of teaser rates. We believe at least a 90 day time period is needed so that borrowers have sufficient time to shop for and receive another loan if necessary. For fixed-rate subprime loans, prepayment penalties must not extend beyond two years. Responsible lenders have voluntarily applied limits to prepayment penalties similar to our recommendation. Limiting prepayment penalties prevents borrowers being trapped in abusive and predatory loans.

- **Escrow for Taxes and Insurance:** The Federal Reserve must require escrows for all loans, prime and subprime, fixes and adjustable rate. Currently, since escrows are not required, deceitful lending flourished when unscrupulous brokers and lenders blind borrowers to the true cost of their loans by not discussing payments for insurance and taxes.

- **Stated Income or Low doc Loans:** We agree with the Comptroller of the Currency that stated income or low doc loans are prone to abuse when predatory lenders and brokers inflate borrowers' incomes to qualify them for unsustainable loans. Stated income or low doc loans must be prohibited on subprime and/or ARM loans. At the very least, the Federal Reserve Board must establish clear protections and procedures for stated income and low doc loans including the requirement that pay stubs, tax forms, and other acceptable verification of income must be received by the lender.

- **Unaffordable Loans:** A core plague of predatory lending is lending beyond borrower payment ability. The federal agencies have correctly identified that abusive lenders are underwriting ARM loans at initial and low rates, leaving borrowers vulnerable to rapid rate increases. The recent guidance on subprime lending required underwriting at the fully-indexed rate. While this is a step in the right direction, we recommend underwriting requirements at the maximum possible rate or rates above fully-indexed rates. There are times when the LIBOR or other benchmark rates are low, meaning that the fully-indexed rate may be an artificially low rate for underwriting purposes. We understand that it was common industry practice to underwrite loans at two percentage points above the fully-indexed rate. The Federal Reserve must consider either some suitable cushion above the fully-indexed rate or the maximum possible rate stipulated in the loan contract. Finally, there should be a presumption that a loan is unaffordable if the borrower's debt-to-income ratio exceeds 50%.

We would like to encourage the board to follow these recommendations in its rule making.

Sincerely,

ROYCE E. POLLARD
Mayor
America's Vancouver