From: Dan Cardenas <dan_cardenas@hotmail.com> on 04/01/2008 02:25:04 PM

Subject: Regulation Z

Dear Sir or Madam:

I applaud Congress' attempt to revise the current rules set forth by Regulation Z. The guidelines as they currently stand place customers at a disadvantage when attempting to purchase or refinance a home. For most Americans their home is the single biggest investment that they will make. It is the basis of their future wealth and financial stability. Home equity can be the vehicle homeowners use to better their lives financially and professionally. It is paramount that consumers are dealt with honestly and openly by lenders and mortgage brokers.

I have previous experience in the mortgage broker business. The lack of ethics demonstrated by originators, appraisers, and lending institutions is reason for grave concern. I have personally seen originators (often encouraged by managers and owners) to completely disregard RESPA. Loan amounts, loan terms, interest rates, and broker compensation regularly do not agree with preliminary GFEs provided to the borrower(s). I understand that in some cases mitigating factor arise that prevent the loan originator from providing the loan for which he or she thought the borrower would qualify. However, in my experience, I have found this instance to the be exception rather than the rule.

Mortgage brokers employ various tactics in order to convince customers to accept loans that are not similar to their original prequalified terms. The most egregious example that I have seen is the implementation of the "pay-option arm." Brokers sell this loan to borrowers as a loan in which the homeowner can get a rate well below the market. The borrower is given a one month "teaser" rate (usually 1.00% or 1.99%). The broker then explains how their payments for the year are based on this rate. They usually fail to mention that starting with the 2nd month the rate is adjusted based on some index (i.e. LIBOR) and a margin. While it is true the minimum payment does not change for 12 months, the interest rate does. The borrower is almost immediately in a negative amortization situation. There are two aspects of this loan that are particularly distressing:

1. Because the rate on this loan is variable month to month there is no accurate way for the lender to represent what the borrower is going to be paying. Therefore, most of the paperwork will indicate that the rate of the loan is the "teaser" rate. Only borrowers that read all of the details of the mortgage will realize that this rate is only guaranteed for 1 month. Even then the paperwork is difficult for someone unfamiliar with it to understand.
2. Most brokers will add the maximum yield spread margin to the rate without the borrower knowing it. In most cases this will add another 2.5 - 3.0% to the effective rate. The broker is paid to give the borrower a higher rate, but it is only disclosed on the HUD-1 form. This is another in which if the customer does not know what to look for and where to look for it he or she will probably miss it.

The changes that are being proposed in the mortgage industry are long overdo. I hope that when they are implemented they can clarify the mortgage process for the average American. I strongly urge someone to review the policies surrounding the "pay-option arm" products. In my estimation they are the most dangerous products available and their employment should be strictly controlled. There are many honest mortgage brokers that know they can make a good living without deceiving homeowners. For them, these regulatory changes will probably have little or no effect. The brokers that have a get-rich-quick mentality and little regard for the borrowers will ultimately feel their impact.

Sincerely,

Dan Cardenas