KeyBank

Ronald J. Dugas
Chief Compliance Officer
Risk Oversight
127 Public Square
OH-01-27-0501
Cleveland, OH 44114-1306

April 7, 2008

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

Re: Docket No. R-1305

Ms Johnson:

Thank you for the opportunity to comment on the proposed changes to Regulation Z, Docket No. R-1305.

KeyCorp ("hereinafter Key"), one of the nation's largest bank-based financial services companies with assets of approximately $92 billion, is pleased to comment on the Federal Reserve Board's proposed amendments to Regulation Z, 12 CFR 226. Key companies provide consumer finance, investment management, retail and commercial banking, retirement, and investment banking products and services to individuals and companies throughout the United States and, for certain businesses, internationally. Key has a presence from Maine to Alaska, and we deliver products and services through a network of branches, ATMs, affiliate offices, telephone banking centers and a website, Key.com®.

KeyBank offers a variety of mortgage loan products and services to its retail customers including home purchase loans, refinances, and home equity loans and lines of credit. Based on an evaluation of the proposed rules and our unique product and customer base, we believe the proposal will significantly increase our regulatory requirements without a direct, corresponding benefit to consumers. We understand the need to focus on many of the concerns this proposal attempts to address. However, we do not believe that additional and duplicative regulations are the answer. Instead, we encourage the Board to increase efforts on direct consumer education and enforcement of existing laws and regulations.

One of our overriding concerns regarding this proposal is the significant expansion of the scope of Regulation Z. The original Congressional intent underlying the Truth in Lending Act was to promote the informed use of consumer credit. The proposed changes to the advertising and initial account disclosures comport with the original intent. However, the proposal to include detailed underwriting standards for "higher priced loans," rules related to mortgage broker agreements and appraiser coercion not only move beyond the stated Congressional intent, but also duplicate existing compliance obligations enumerated elsewhere in federal law and regulation. Including specific underwriting guidelines in Regulation Z will eliminate our ability to respond to ever-changing market conditions and will result in increased expenses as we address competing regulatory interests and conflicting interpretations. It will likely result in a reduction in the availability of credit to credit-worthy borrowers because of the increased complexity and expense involved, coupled with the fear of encountering unforeseen compliance pitfalls.

In addition to our overriding concern mentioned above, we have analyzed the content of the proposal and we offer specific comments regarding certain provisions that will be particularly expensive or problematic for us to comply with. These costly or problematic provisions will most certainly drive up the cost of consumer credit:

1. **"Higher priced loan" definition and testing.** The proposal details a test that must be performed for any loan that may be a covered loan. The test is problematic for several reasons: (a) the test is separate and apart from the Board's existing test for HOEPA loans. This means an immediate and continuing expense to build programs and procedures to maintain the two tests. (b) The volume of loans we process makes automated testing a necessity to avoid delays in processing and minimize expenses. The complexity of this test may preclude automated testing, which drives up costs and increases processing time and the potential for human error; (c) the test may need to be performed several times during the application process, which means the loan may become a covered loan *after* it has been underwritten. At this point, initial disclosures have already been sent out and the bank has communicated the applicant's verification requirements (copies of W-2s, tax returns, pay stubs, etc.). The change in status may result in delays, increase costs to the consumer (to extend rate locks) and will likely cause customer frustration and anxiety because of our need to obtain additional documentation and verification not previously requested; and (d) Treasury rates are not used by the industry to establish mortgage interest rates. Prime mortgage rates have recently risen more than 3% above comparable treasury securities. If the Board feels strongly that the test should be tied to comparable treasury securities, the rate spread should be increased to at least 5% above comparable yields to avoid covering prime loans as well as higher priced loans.

2. **Underwriting guidelines for higher priced loans** – as previously mentioned, we do not support the inclusion of specific underwriting guidelines in Regulation Z. However, if the Board feels strongly that guidelines should be included, we recommend that the "ability to pay" standard apply to all types of mortgage credit, with reference to existing regulatory guidance for details on how the "ability to pay" standard should apply. This will simplify compliance and maintain consistency with existing and future regulatory guidance related to prudent lending standards.

3. **Prepayment penalties limits for higher priced loans** – lenders may offer borrowers a choice between paying a prepayment penalty and paying a higher interest rate. Since the proposed limits require an underwriter's examination of each borrower's individual circumstances, large lenders may eliminate the option of prepayment penalties for higher priced loans in favor of a more broad-brush approach to compliance. Removing the flexibility to offer loans with or without prepayment penalties may ultimately result in higher interest rates and costs to borrowers who might benefit from this lower cost alternative. We therefore do not support imposing these new limits.

4. **Escrow accounts for first lien higher priced loans** – we strongly oppose the escrow requirement for first lien higher priced loans because of the increased expense to consumers. Key currently requires escrow accounts for the majority of the purchase-money mortgages we originate and sell to investors. We do not maintain an escrow accounting system for home equity accounts that we sell and service ourselves. The proposal to require escrow accounts for higher priced first lien loans will significantly increase operating and compliance expenses which, in turn, will increase costs to consumers.

5. **Mortgage broker compensation and appraiser coercion** – we strongly oppose the inclusion of these provisions in Regulation Z. Any amount paid to a mortgage broker is based upon an agreement between the borrower and the broker. Since lenders are not a party to the agreement, lenders should not be required to bear the burden of ensuring the mortgage broker agreement is in compliance before releasing payment to the broker. In addition, we believe that these rules are better addressed by HUD in RESPA and Regulation X because any duplication or overlap that would result by amending Regulation Z will only increase the complexity of compliance and increase cost to the consumer. The same applies to appraiser coercion rules. There are existing appraisal rules that can be referenced in Regulation Z but should not be duplicated in the regulation itself.

**6. Advertising** – our overall concern related to credit advertisements is the volume of "clear and conspicuous" disclosures that will be required to be included within "close proximity" to the triggering terms. The additional disclosures and larger text requirements mean advertisements will either have to be crafted to be devoid of product specific information (to avoid all triggering terms) or be more expensive because of the need to increase the ad size to incorporate all the disclosures triggered by the promotional copy.

We thank the Federal Reserve Board for the opportunity to provide our thoughts and comments on the proposed changes to the regulation. If you have any questions regarding our comments, please do not hesitate to contact me at 216-689-4286.

Sincerely,

Ronald J. Dugas
Executive Vice President