From: "Florida Mortgage Services" <info@floridamortgagesw.com> on 04/07/2008 03:15:01 PM

Subject: Regulation Z

Ladies and Gentlemen:

This letter will probably go into a stack of responses from the Mortgage Brokers against the proposed Regulation Z changes. I have been in the mortgage business since 1966, so what I have to say should have some credence.

1. The current conditions in the Mortgage Industry are primarily due to an unprecedented national decline in residential real estate values. In my recollection, in the last 42 years, there has not been as significant a decline on a national scale in these values as there is currently. Who's to blame for this decline? The decline was mostly cyclical, after many decades of increasing values, a decline was inevitable. There also was a shortage of housing, also cyclical. In many markets homes were sold before they made in to the Multiple Listings and buyers paid more than the listed price to insure that they would get the property. No one or group can be pointed out to have caused these conditions, certainly not the Mortgage Brokers.

   However, in the late nineties and early in this century investors who were displeased with Stock Market performance flocked to real estate for "better and higher returns". Housing was created at a feverish pace to satisfy this investor market. The Banks and Lenders (the institutions which own the largest mortgage companies such as CitiBank, Chase, Wells Fargo, Washington Mutual, Bank of America, HSBC, Wachovia, GMAC, Country Wide, etc.) helped feed this frenzy by providing more leverage with higher LTVs and reduced credentials. In addition, the Home Equity Line of Credit (HELOC) was discovered and was consistently used to get higher Loan-to-Values without Mortgage Insurance. The Banks have had an orgy or these HELOCS, a secured credit card in their minds. Credit Cards are, without exception, the Banks' most profitable lending area. It should be noted that when the new bankruptcy law was passed, the Banks promised lower interest rates. Credit card rates have increased since by about 10%, since the new bankruptcy was passed! Not a 10% increase, from the teens to the twenties!

2. Another cause contributing to the current conditions is the credit reporting and scoring system. There is not a Member of the Federal Reserve Board, MBA, Economist, Rocket Scientist (which I profess to be) or any knowledge business man who would lend money without evidence as to how repayment would be made. All three Credit bureaus issue Credit Scores, which are based 100% on the applicant's payment history, with no verified information of income or even employment. The Banks approve credit cards based solely on these scores and do not even call to verify employment. It is easy to see how this scheme can escalate into tens of thousands of dollars of debt and ultimate

bankruptcy.

3. The Banks did verify income and employment when it came to first mortgages, however each of the lenders in their desire to get a larger portion of the First Mortgage business; they kept offering loans with fewer and lower credentials, basing their decisions entirely on the ill-conceived “credit scores”. Lenders could not offer better rates, because they would lose money when they sold the loans to Fanny Mae or others, so the only way they could compete was to offer less and/or lower documentation. On the “Piggyback” HELOCs the Banks were completely irresponsible. In their lust for this business, CitiBank offered up to $500,000 with only stated income, a 90% CLTV and credit scores over 720 with some verified assets. Most other lenders capped stated HELOCs at $100,000 or $150,000. Countrywide and Wells Fargo paid Brokers an extra 3/8th or 1/4th of a point on the First Mortgage to add a fully funded HELOC to the transaction. This could allow for a lower interest rate for the Borrower and sometimes an increase in premium to the Broker, all of which was fully disclosed.

4. Your proposed changes to Regulation Z are based on the supposition that all or most of the current mortgage industry problems were caused by the Brokers. I am certain that there are some Brokers who exploit the Borrowers and to some degree the Lenders, however in any group of professionals there is a certain percentage that are not totally above board. Are Mortgage Brokers as bad as used car salesmen or maybe lawyers or members of congress? I do not think so. My lender representatives tell me that I am not alone in being a Borrowers’ Advocate. If I have to close with the first lender whose costs I put on the initial Good Faith Estimate, my borrower may miss a lower rate when lender B offers it before we locked with the original lender. Lenders’ costs vary maybe by $200 or $300, certainly not the reason for lowering the rate by an 1/8th or a 1/4th.

5. APR is a regulation with terrific intentions. Take a moment to read the actual regulation. The language is vague because it has to apply to auto leases, mortgages and furniture and appliance purchases with no payment for the first decade or two! When I first obtained a Loan Origination Program that computed APRs, I was not sure what expenses should be included in the “prepaid interest” category. Points to the lender or origination fees to me are obvious, but most of the other costs are vague and up to some interpretation. I called six of the lenders with whom I regularly deal and spoke to the person who did the APRs for each. I got six different responses. The Lenders do not look at my APRs with any comments.

6. Premium Pricing or what I can receive from the lender for the loan at rate certain is beyond the mental capacities of 80% of the borrowers. I initially tried to explain it using bond sales. I even made up a spread sheet to show how you can obtain a higher yield by buying at a lower price etc. Blank faces and a

typical response, “I am ok with this rate let’s do it!”

7. Truth in Lending is a farce with no enforcement. Ditech, wholly owned by GMAC, has had literally hundreds of TV commercials with low pronounced interest rates and until recently no APRs. BankRate, who publish mortgage rates in newspapers all over the US shows ridiculous APRs on the rates listed. They show a negative amortization loan with a 1% pay rate and an APR of 1.375%! Total disregard of the Truth in Lending “Law”. I do not do a negative amortization loan with out showing the borrower a five years loan payment schedule which shows the accrual growing, even with a constant future interest rate; a best case scenario.

8. The demise of the sub-prime lending is the result of self destruction. The Wall Street firms who marketed the mortgage back securities which funded these loans would buy anything offered to them! They demanded more and more. There was always a new “lender” whose requirements were less than whomever I was currently doing business and they would pay me more. It got to the point that we could get a home loan for a borrower with a 520 credit score and it was a “No Income, No Asset, No Job Loan”! In fact Greenpoint Mortgage (not a sub-prime lender) which was owned by one of the major credit card banks answered their phone, “Hello, this is Greenpoint Mortgage, the home of the no income, no asset no job loan”. They were one of the first to shut down. The sub-prime borrowers are easy marks to a broker who will take advantage of the situation. I had one young lady loan officer who said they are like sinners going to confession and what we charge them is their penitence, “the more we charge, the better they feel”. But they want their house, the American dream. They do not worry about tomorrow.

It is unlikely that you will put the blame where it belongs, with the Banks. The Banks are the largest contributors to both Senatorial and Congressional election funds; they can not be guilty. How else could the Banks get a bankruptcy law passed that took ‘getting out of debt’ away from the debtor? There is not a constituency in the country which would have supported that law. How could congress pass such a law? Take a look at the Senate or House Committees that instructed the Federal Reserve take action to correct the mortgage industry problems. Add up the amount of money each member received from the Banks in campaign funds and have it made available to the kids who are losing their homes.

The Mortgage Crisis, Credit Crisis, what ever you want to call it stems from the same underlying problem with our government. Special interest groups run the country with the leverage they hold over the elected officials as a result of their campaign contributions.

NORMAN B. KLUGER
Phone 239-498-3330
Fax 239-498-7992