HCM
Houston Capital Mortgage

February 29, 2008

To: Board of Governors
Federal Reserve System

Re: Regulation "Z" proposed rule changes

I am a mortgage industry professional of 25 years, and would like to provide comment regarding the proposed Regulation Z changes. The Fed's underlying motivation is to provide needed governance in the sub prime lending industry. Unfortunately, there are always unintended consequences when regulation is promulgated. This change will negatively impact the availability of mortgage capital, if proper modification is not made.

As a reputable mortgage lender, let me clearly state that change is much needed in the sub prime arena. Sub prime loans should not have more lenient underwriting requirements than agency loans. All sub prime loans should require escrow accounts, as fiscal responsibility has not been demonstrated. Qualification for a sub prime loans should not be based on low teaser start rates, but on future "as adjusted" payments. Payment shock can be addressed by more restrictive caps on the adjustable rate loan products. Homebuyer education should be mandatory on all sub prime loans to educate the borrower, which would improve consumer behavior and loan performance.

The criteria set forth for defining "higher priced" mortgage loans is a specified APR yield over treasuries. With respect to first liens, if the APR is 3% over the comparable Treasury notes, the loan is "sub prime". Current economic markets present us with the challenge of an inverted yield curve. Current rates for a 2 year treasury securities are 2%, 5 year securities are 2.75%, 10 year securities are 3.51% and 30 year are 4.375%. The basis for deeming a loan as "sub prime" is APR of 3% over any of these indexes. Therefore, many high credit quality loans that are conforming "low documentation" or jumbo loans will be improperly categorized as sub prime and adversely affected. Many fiscally responsible high credit borrowers who are self employed or commissioned opt for higher rate loans with lesser income or asset documentation. Often, high credit quality fiscally responsible borrowers opt to waive their escrow accounts when making 20 % down payments.

The 3% criteria is too restrictive for the credit markets and should be 5% uniformly on all liens. There should also be a credit score criteria included in this definition as well. All of the GSE's utilize credit scoring, and once the score falls below an acceptable tolerance, sub prime becomes the lending option.

Thank you for allowing me to comment on this important matter.

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