

NEIGHBORHOOD HOUSING SERVICES OF CHICAGO, INC.

Rebuilding Chicago's Neighborhoods

1279 N. Milwaukee Ave., 5th Floor
Chicago, Illinois 60622
773 329-4010
fax: 773-329-4120
www.nhschicago.org



April 7, 2008

Bruce A. Gottschall
Executive Director
Neighborhood Housing Services of Chicago
1279 N. Milwaukee Ave. 5th Floor
Chicago, IL 60622

RE: Docket Number R-1305

To Whom It May Concern:

Neighborhood Housing Services of Chicago, a chartered member of the NeighborWorks® Network, is generally supportive of the efforts being taken by the Federal Reserve System through this Proposed Rule, to increase the level of disclosure and transparency in the mortgage industry and protect consumers from unfair, abusive, or deceptive lending and servicing practices. NHS has long supported increased regulation and transparency in mortgage lending, not only in response to, but for years prior to the recent crisis. This effort by the Federal Reserve System is encouraging and we hope for continued work in this direction through implementation and enforcement of this rule.

In addition to the measures outlined in the proposed rule, we believe that additional steps are needed, as detailed in the comments below.

Proposed prohibition to engaging in a pattern or practice of extending credit to a consumer without regard to the consumer's repayment ability

We strongly support this proposal. We are concerned that the language, "*engaging in a pattern or practice*", establishes a legal standard that would be very difficult to prove, even when there have been flagrant violations. It begs the question of why a pattern or practice must be established: one violation should be enough to take action. It is understood that this measure is supplemented by the proposal to require verification of income and assets, however, the rule would allow for more effective enforcement if it included language to prohibit the behavior of extending credit to a consumer without regard to the consumer's repayment ability. This would address the overarching goal of prohibition of patterns or practices of this behavior and would strengthen the intention behind it by removing a possible barrier to effectiveness and enforcement.

We are also concerned that the proposed rule is limited to sub-prime loans only, and does not include other non-traditional loans, such as "Payment Option Adjustable Rate Mortgages" and other Alt-A products. As we are already beginning to see, the harm caused by these practices has not been isolated to sub-prime mortgages and borrowers. To not include other non-traditional loans or more 'sophisticated' borrowers in this measure would compromise the goal of a comprehensive strategy to address this problem.

Requirement to Escrow for Taxes and Insurance

We believe that there should be a standard expectation of an escrow account but borrower should not be required to have one if he/she both can prove the ability to pay for insurance and taxes through cash reserves, and, in the case of refinances, has an established record of having made payments on property taxes and property insurance on time. This requirement should apply not only to sub-prime loans, but to all other non-traditional loans, as above.

Creditor Payments to Mortgage Brokers (Yield Spread Premiums)

We support the effort towards prohibition of yield spread premiums but believe that the proposal needs to extend further to abolish the use of yield-spread premiums. Yield spread premiums create a disincentive for mortgage brokers to identify the most affordable mortgage product for the borrower. Only the elimination of yield spread premiums would eliminate this unfairness in the mortgage markets.

If the Federal Reserve decided to rely on disclosure alone, it should mandate the language of these notifications to be such that clarifies to the consumer what a yield spread premium actually is so the consumer can make a truly well-informed decision. Without this clear, meaningful language, the notification will fail to serve its very purpose.

Also, if the Federal Reserve decided to rely on disclosure alone, we believe that bank employees and other loan originators should also be subject to such disclosure.

We appreciate the opportunity to submit comments on the proposed rule.



Bruce A. Gottschall
Executive Director
Neighborhood Housing Services of Chicago