

March 22, 2007

Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314

Subject: George Shipman comments on “Proposed Statement on Subprime Mortgage Lending”

While I understand the desire to protect the safety and soundness of the credit union community, I would respectfully request that you take into account the greater issue. Homeownership is a national priority that encourages participation in the community and produces enormous benefits for the country, state, county, city, and the homeowner. I support the vigorous enforcement of the existing statutes, and regulations.

I would like to offer the following comments to the items contained in the “Proposed Statement on Subprime Mortgage Lending”.

NCUA Concern: Offering low initial payments based on a fixed introductory or “teaser” rate that expires after a short initial period then adjusts to a variable index rate plus a margin for the remaining term of the loan.

The lower interest rate is a benefit for the borrower as long as there are no additional charges or pre-payment penalties added. The existing consumer regulations are more than adequate for the borrower’s protection, (Reg Z, RESPA).

NCUA Concern: Approving borrowers without considering appropriate documentation of their income.

I absolutely agree that documentation of income should be verified. I believe that there are sufficient guidelines issued by the GSE’s (FannieMae, & FreddieMac).

NCUA Concern: Setting very high or no limits on how much the payment amount or the interest rate may increase (payment or rate caps) at reset periods, potentially causing a substantial increase in the monthly payment amount “payment shock”.

I would suggest that there are adequate regulations currently existing. This issue has been addressed for quite some time (See Reg Z). Enforcement of existing regulations would be adequate.

NCUA Concern: Containing product features likely to result in frequent refinancing to maintain an affordable monthly payment.

There are many things that can make a monthly payment more affordable, including; rising income, lowering expenses, increasing tax deductions, refinancing into lower rates, extending the term, and principle curtailments. I would suggest that a loan (without a pre-payment penalty) will allow the borrower to make the best choice. The borrower is the best person to make the decision on how to increase or maintain affordability.

NCUA Concern: Including substantial pre-payment penalties and/or pre-payment penalties that extend beyond the initial interest rate adjustment period.

The single most undesirable feature that can limit the choice of the borrower is a pre-payment penalty. Without a pre-payment penalty, the borrower has a choice to manage burdensome payment increases.

NCUA Concern: Providing borrowers with inadequate information relative to product features, material loan terms and product risks, pre-payment penalties, and the borrower's obligation for property taxes and insurance.

I suggest that adequate regulations are in existence (Reg Z, RESPA). If abuses of existing regulations are enforced, it will benefit all borrowers.

The second part of this memo is related to the NCUA specific, "Request for Comment" on several detailed questions.

Question 1. The proposed qualifications standards are likely to result in fewer borrowers qualifying for the type of subprime loans addressed in this statement, with no guarantee that such borrowers will qualify for alternative loans in the same amount. Do such loans always present inappropriate risks to lenders or borrowers that should be discouraged, or alternatively, when and under what circumstances are they appropriate.

I believe it is the dynamic of the free market that might necessitate the borrower searching longer for an appropriate home. If the desire is truly for homeownership and not for speculation, then the imposition of income requirements will only serve to benefit the buyer. A search for more competitive properties will be the result.

The deletion of a pre-payment penalty may reduce the number of lenders offering teaser rates. These lenders would increase rates slightly or add fees to compensate for the loss

of a prepayment penalty. I believe this would be a benefit in comparing lenders. The APR's would, more appropriately, reflect the real cost.

If all subprime products are removed from the market place borrowers will return to products that were considered problems in the past. Those products include, (AITD's all inclusive trust deeds, Contract of sale, and private loans). All of these products can be subject to abuse since they are not as extensively regulated.

Question 2. Will the proposed statement unduly restrict the ability of existing subprime borrowers to refinance their loans and avoid payment shock? The agencies also are specifically interested in the availability of mortgage products that would not present the risk of payment shock.

I am convinced that some lenders will exit the subprime market place. This will indeed restrict the number of choices that a member has. However risky the loans may be to the consumer, they still provide a choice to consider. I would prefer to see (no pre-payment penalties) as a feature that would allow more choice.

Other loan types that offer less payment shock include; 30, 40, & 50 year amortized loans, interest only fixed rate loans, and those ARM loans that offer an extended fixed rate period 5/30, 7/30/ & 10/30.

Question 3. Should the principles of this proposed statement be applied beyond the subprime ARM market?

Absolutely not! The principles of this proposed statement should only be applied in very limited circumstances within the subprime arena. Remember the vast majority of outstanding real estate loans are not delinquent. Also, please keep in mind that our system of real estate finance is the envy of the world. What other country can show the tremendous accomplishments of a FannieMae or FreddieMac that led us to record homeownership rates.

If we value homeownership, we should be thankful for our current system. The relative success is astounding!

Question 4. We seek comment on the practice of institutions that limit pre-payment penalties to the initial fixed rate period. Additionally, we seek comment on how this practice, if adopted, would assist consumers and impact institutions, by providing borrowers with a timely opportunity to determine appropriate actions relating to their mortgages.

Pre-payment penalties serve no useful purpose for the member. If I stretch the current prevailing logic, it could be argued that a pre-payment penalty reduces the initial interest

rate, or provides an inducement to bring investors into the real estate lending market place (more loans available). I suggest that an appropriate rate on the loan should be disclosed up front, so that the lender/investor has no incentive to hide the fact that a pre-payment penalty is additional income. Pre-payment penalties are often used to pay for premiums, given to loan brokers, to steer loans to the lender.

George H. Shipman
President, Credit Union Real Estate Network of Southern California
c/o California Credit Union
(818) 291-5542 Office
(818) 291-5454 Fax
(909) 728-9311 Cell
georges@californiacu.org