April 8, 2008

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

Re: Docket No. R-1305

Dear Ms. Johnson:

The Conference of State Bank Supervisors (CSBS), the American Association of Residential Mortgage Regulators (AARMR), and the National Association of Consumer Credit Administrators (NACCA) commend the Board of Governors of the Federal Reserve System (the Board) for the revisions you have proposed to Regulation Z to address the marketing and underwriting practices that have contributed to consumer abuses and the current mortgage crisis.

The proposed revisions to Regulation Z will have a profound impact on the way the residential mortgage industry conducts its business. Once finalized, the requirements of Regulation Z will be directly or indirectly applicable to all residential mortgage providers, not just insured depository institutions. Once the proposed revisions are finalized, all loans made, including those brokered by a mortgage broker, will be subject to Regulation Z. Given this broad coverage, it is incumbent upon the Board to take a deliberate and focused approach to the proposed rules to ensure that consumers will be adequately protected, that credit will still be accessible, and that market innovation will be appropriately encouraged.

General Principles Governing Coverage and Proposed Definition of "Higher-Priced Mortgage Loan"

The Board outlined four principles that govern appropriate coverage of Regulation Z. First, new regulations should be applied as broadly as needed to protect consumers from injury, but not so broadly that the costs would clearly outweigh the benefits. Second, the most practical and effective way to protect borrowers is to apply protections based on loan characteristics, rather than borrower characteristics. Third, the rule identifying higher-priced loans should be as simple as reasonably possible, consistent with protecting consumers and minimizing costs. Fourth, the rule should give lenders a reasonable degree of certainty during the application process regarding whether a transaction, when completed, will be covered by a particular protection.

While the mortgage crisis seems to be concentrated in the subprime sector, many prime consumers have also been negatively impacted by abusive loans or predatory lending practices. Therefore, while CSBS, AARMR and NACCA support each of the four principles, we are particularly supportive of the second principle that protections should be based on loan characteristics, not borrower characteristics.

The Board has proposed to apply Regulation Z to "higher-priced mortgage loans." This new classification would effectively encompass the entire subprime market and a portion of the alt-A market. In general, CSBS, AARMR and NACCA support this new classification and the definition of "higher-priced mortgage loans."

However, we adamantly disagree that some mortgage products should be offered a blanket exemption from Regulation Z, specifically home equity lines of credit (HELOCs) and reverse mortgages where appropriate. The Board argues that since the majority of HELOCs are originated in insured depository institutions or thrifts, they are more closely supervised than mortgage loans that were originated by non-depositories. CSBS, AARMR and NACCA note, however, that many non-performing mortgage loans were originated by, sold to, or serviced by some of the nation's largest insured depositories and thrifts. We believe the argument that HELOCs do not have the potential for consumer abuse or fraud simply because they tend to be originated by an institution or a thrift is inaccurate. Furthermore, the Board is proposing to exempt reverse mortgages because they "have not identified significant abuses in the reverse mortgage market." We believe the reverse mortgage market is ripe for fraud and consumer abuse. Therefore, providing an exemption for these products will greatly limit regulators' authority if and when this market shows signs of fraud and abuse. The proposed revisions to Regulation Z provide sound lending practices that should be followed by all mortgage providers, regardless of the products they are offering. Therefore, we argue against providing exemptions for certain mortgage products.

Proposed Rules for Higher-Priced Mortgage Loans

In general, CSBS, AARMR and NACCA agree with the Board that the proposed prohibited practices for higher-priced mortgage loans are likely to cause more injury than any benefit the practices may provide for select higher-priced loans.

<u>Disregard of Consumers' Ability to Repay</u>

CSBS, AARMR and NACCA believe the Board's proposal with regard to a consumer's ability to repay is insufficient. Under the proposal, a lender is prohibited from engaging in a "pattern or practice" of making higher-priced mortgage loans without regard to the consumer's repayment ability as of consummation. CSBS, AARMR and NACCA argue that this simple foundation of sound underwriting—consideration of a borrower's ability to repay—should be applicable to all residential mortgage loans, not just higher-priced mortgage loans. In addition, the "pattern or practice" standard is too vague and may allow for abusive lending to occur. A mortgage provider must be held accountable for each individual loan it sells.

Borrower Debt-to-Income (DTI)
The Board recognizes that a consumer's DTI should be considered as part of the underwriting process, but the Board is not proposing a specific DTI ratio that would create a presumption of a violation of Regulation Z. The Board is also not proposing a specific ratio that would be a safe harbor. CSBS, AARMR and NACCA assert that a safe harbor provision should be allowed for low DTI ratios. We suggest a DTI ratio that qualifies for Federal Housing Administration (FHA) insurance should also qualify for safe harbor from the provisions of Regulation Z. In addition, all monthly housing expenses for principal, interest, taxes and insurance (PITI) should also be considered in the DTI calculation.

Verification of Income and Assets Relied On
CSBS, AARMR and NACCA are very supportive of the Board's approach by providing examples of when stated-income loans are appropriate for borrowers. We urge the Board to prohibit stated-income loans for all higher-priced mortgage loans, unless there are clear mitigating factors, such as a lower Loan To Value ratio or a higher credit score. We also believe the Board should require the lender to disclose that the borrower is purchasing a stated-income loan, but they may be eligible for a lower rate if their income is verified.

Prepayment Penalties
We urge the Board to prohibit prepayment penalties for all higher-priced mortgage loans. Furthermore, we discourage the Board from limiting protections for a loan that has the potential for negative amortization. A higher-priced mortgage loan that may negatively amortize should not be allowed to have a prepayment penalty as a loan characteristic.

Requirement to Escrow
CSBS, AARMR and NACCA support the Board's proposal to require escrow for higher-priced loans, as well as the ability for a consumer to opt-out of this requirement twelve months after consummation of the loan. In addition, we believe insured depository institutions that portfolio the mortgage loan should be exempted from this requirement.

Proposed Rules for Mortgage Loans
Creditor Payments to Mortgage Brokers
In general, CSBS, AARMR and NACCA are supportive of the Board's proposal to prohibit a creditor from paying a broker unless the payment does not exceed an amount the broker has agreed with the consumer in advance will be the broker's compensation. In particular, CSBS, AARMR and NACCA are pleased that this proposal applies to the prime market, as well as the subprime market. We are also pleased that the proposal recognizes that states may adopt regulations more protective of consumers by prohibiting creditor payments to brokers that could influence brokers to offer loan products that are not in the consumer's best interest or are not the most favorable the consumer could obtain. We are concerned, however, that simply disclosing to consumers that creditor payments to mortgage brokers can influence the broker to offer the consumer loan terms or products that are not in the consumer's best interest or are not the most favorable the consumer

could obtain will not sufficiently protect consumers from abusive practices and would offer brokers a safe harbor, even if they do not work in the borrower's best interest. The disclosure should provide more information on the broker's yield spread premium and the impact it will have on the borrower's specific loan.

Coercion of Appraisers

CSBS, AARMR and NACCA recognize that coercion of appraisers has contributed to our current mortgage crisis. Therefore, we support the Board's proposal to prohibit creditors and mortgage brokers and their affiliates from pressuring an appraiser to misrepresent a dwelling's value. We also support the provided examples of acts that would violate the regulation. Once again, however, CSBS, AARMR and NACCA urge the Board not to exempt HELOCs from the proposal. Ultimately, we believe HELOCs are as vulnerable to fraud and abuse as closed-end consumer credit transactions secured by a consumer's principal dwelling.

Servicing Abuses

We support the Board's proposal to prohibit certain servicing practices that are likely to harm consumers. Furthermore, we believe the Board should include a safe harbor as to what constitutes a reasonable payment requirement (for example, a cut off time of 5:00 PM for receipt of a mailed check). Every market participant, including servicers, contributed to the current mortgage crisis. In fact, the states receive a substantial number of servicing complaints. Therefore, we applaud the Board for proposing prohibited practices for servicers of residential mortgage loans.

Coverage

The above protections would be applicable to mortgage loans generally, if primarily for a consumer purpose and secured by a consumer's principal dwelling. While CSBS, AARMR and NACCA are pleased that these proposed protections will be applicable to the prime and subprime markets alike, we are concerned that HELOCs are exempt from coverage. Failure to include HELOCs in Regulation Z may provide an avenue of non-compliance, as some predatory lenders can structure the transaction as a HELOC. CSBS, AARMR and NACCA have repeatedly expressed our concern in this letter about the exclusion of HELOCs from the proposed requirements of Regulation Z. Once more, we urge the Board to reconsider their position and to ensure that HELOCs will be covered by the protections of Regulation Z.

Other Potential Concerns

Other HOEPA Prohibitions

We agree with the Board that the restrictions of the Home Ownership and Equity Protection Act should be expanded to the new category of higher-priced mortgage loans. In particular, CSBS, AARMR and NACCA have grave concerns about higher-priced loans having the potential for negative amortization. Therefore, we are particularly supportive of expanding HOEPA's prohibition of negative amortization to higher-priced loans.

Steering
While we support the Board's proposal to address steering, we must repeat our previous concern regarding the "pattern or practice" standard for creditors. We believe a creditor should be accountable for each individual loan he or she makes, not just if he or she is engaged in repeated acts of abusive or predatory lending.

Advertising
CSBS, AARMR and NACCA are encouraged that the Board is considering extensive revisions to advertising requirements. Clear and conspicuous advertising is vital to ensuring consumer comprehension of mortgage products. It also places all creditors and brokers on an equal playing field. Fraudulent advertising is anti-competitive and harmful to consumers. We commend the Board for striving to achieve an appropriate balance between good information and time and space requirements to provide the greatest benefit to consumers.

With regard to internet disclosures for both open-end home-equity plans and closed-end credit, CSBS, AARMR and NACCA urge the Board to address more specifically the unique characteristics of online advertising and to follow the guidelines for online advertising adopted by the Federal Trade Commission. Whenever possible, required disclosures should be placed on the same screen and near the triggering term. If an internet advertisement uses a hyperlink that leads to a disclosure, the Board should require the following: (1) the link is obvious; (2) the hyperlink is labeled appropriately to convey the importance, nature, and relevance of the information in the disclosure; (3) styles are used consistently so that consumers know when a hyperlink is available; (4) the hyperlink is near relevant information and is noticeable; (5) consumers are taken directly to the disclosure on the click-through page; and (6) the hyperlink is effective and updated as necessary.

Advertising Rules for Open-End Home-Equity Plans
CSBS, AARMR and NACCA commend the Board for revising the clear and conspicuous standard for closed-end mortgage products. But we believe the prohibitions should also be extended to home-equity plans. Providing exceptions for home-equity plans merely leaves a potential escape from the requirements of Regulation Z for those who would abuse consumers.

Advertising Rules for Closed-End Credit
We applaud the Board for proposing a new section to address disclosure requirements for advertisements for credit secured by a dwelling. Further, we agree that applying the close proximity and prominence requirements to television or radio advertisements is difficult to achieve. However, the potential for abuse in oral advertisements is significant. CSBS, AARMR and NACCA believe this proposed new section would be applicable to telemarketer scripts, which are not time-limited to the same extent as television or radio advertisements. Applying this section to telemarketer scripts would undoubtedly benefit consumers by requiring more useful disclosures in advertisements.

We also support the Board's proposal to establish a clear and conspicuous standard for the disclosure of payments in advertisements for home-secured loans. We disagree, however, that requiring disclosures about taxes and insurance premiums displayed with equal prominence will distract consumers from key payment and time period information. This information is vital for a consumer to consider when calculating the total cost of purchasing a home. Therefore, CSBS, AARMR and NACCA maintain that the consumer benefits from taxes and premiums displayed with equal prominence and proximity to triggering terms far outweigh the potential distraction.

We also urge the Board to prohibit the use of the term "fixed" in advertisements for variable-rate transactions secured by a dwelling. We recognize there may be certain instances where advertisements for adjustable-rate mortgages (ARMs) have utilized the term "fixed" correctly to assert that payments may be fixed for a period of time before the payments change. However, providing any opportunity to use the term "fixed" for an ARM minimizes consumer protections and may allow for unwarranted confusion or even fraudulent manipulation to avoid compliance with Regulation Z.

CSBS, AARMR and NACCA offer our strong support to the Board's proposal to prohibit any advertisement for credit secured by a dwelling from making any comparison between an actual or hypothetical consumer's current payments or rates and the payment or simple annual rate that will be available under the advertised product for less than the term of the loan, unless certain criteria are met. Misrepresentation and confusion as to whether taxes and insurance are included in the monthly payment amount is one of the most harmful sales practices currently employed against consumers.

Further, we encourage the Board to prohibit comparisons based on the assumed refinancing of non-mortgage debt into a new home-secured loan. CSBS, AARMR and NACCA agree that debt consolidation may be beneficial for some consumers. However, the states have investigated abusive sales practices in which borrowers are led to believe that converting short-term debt to long-term debt is beneficial, despite the fact that it may not be. For example, references are sometimes made to the "exchange" of interest rates without due consideration to the remaining time to maturity. Accurate comparative analysis to determine true savings is difficult for most consumers and therefore places the consumer at a disadvantage when faced with a sales pitch of "automatic" or "obvious" savings. While the theory of transferring high cost debt to low cost debt is compelling, the reality of saving can only be determined when all factors and assumptions are presented side-by-side. Further, the transference of unsecured debt into secured debt carries implications and potential problems beyond the mere savings of interest.

Finally, we commend the Board for proposing provisions to address advertisements that either characterize the products offered as endorsed or sponsored by a federal or state government entity, or that prominently display the name of the consumer's current mortgage lender. Some states already have similar limitations in place and a history of enforcement in these areas.

Mortgage Loan Disclosures

Early Mortgage Loan Disclosures

CSBS, AARMR and NACCA offer our strong endorsement of the Board's proposal to amend Regulation Z to extend the early mortgage loan disclosure requirements for residential mortgage transactions to other types of closed-end mortgage transactions including mortgage refinancings, home equity loans, and reverse mortgages. We agree that all of the early mortgage loan disclosures must be delivered before the consumer pays a fee to any person in connection with the consumer's application for a mortgage transaction.

Ultimately, however, we disagree with limiting the proposed early disclosure obligation to fees paid in connection with an application for a mortgage transaction. State supervisors have witnessed that fees collected by a creditor or an originating third party effectively locks the borrower into the transaction. Also, the Board's proposal to provide an exception to the fee restriction for obtaining information on a consumer's credit history is in direct conflict with some state laws. Therefore, we urge the Board to apply the provisions to all fees collected by a creditor or third party originator.

We understand the Board's concern that this proposal could impose additional costs on creditors, some of which may then be passed on in part to consumers. CSBS, AARMR and NACCA feel strongly that the benefits to consumers outweigh any additional costs to creditors. Further, since some states already require disclosure in this area, most lenders already have systems in place that will ensure their compliance with the proposed requirements. Regardless, CSBS, AARMR and NACCA do not feel that the additional costs to creditors (which we believe will be minimal) outweigh the perceived benefits to consumers.

State supervisors recognize that creating effective and clear disclosures is challenging, and we commend both the Board and most recently the Department of Housing and Urban Development for their efforts in this area.

Finally, we have included the CSBS/AARMR Model Early Disclosure for consideration by the Board as you continue to review mortgage disclosures.

Civil Liability and Remedies: Administrative Enforcement

With regards to a consumer's right to rescind certain transactions for up to three years after consummation due to a violation of the statute, CSBS, AARMR and NACCA are concerned that the term "consummation" remains undefined within Regulation Z. Although the regulation allows state law to govern the definition of consummation, most state laws have not defined the term. In our current climate of pending foreclosure activity where consumers may hold a valuable protection in the way of extended rescission rights, clarity of exactly when the rescission right accrues is vital. Therefore, CSBS, AARMR and NACCA encourage the Board to provide a definition of "consummation" in the final regulation.

Effective Date
While we recognize that an implementation period is necessary for any regulation, we urge the Board to implement as many provisions as possible as quickly as possible. Some of the proposed revisions, such as the advertising requirements, could be enacted quickly without any burden to creditors. In the current climate of uncertainty and potential consumer harm, enhanced consumer protections should be implemented as soon as possible.

CSBS, AARMR and NACCA applaud the steps taken by the Board to strengthen and enhance Regulation Z. When finalized, we are confident Regulation Z will do much to prevent fraudulent and abusive lending practices in the subprime and alt-A mortgage market.

Subprime lending can prove very beneficial to consumers as they try to access the capital necessary to purchase or refinance a home. It is not the goal of CSBS, AARMR and NACCA to limit credit access to borrowers. State supervision will continue to vigilantly supervise the mortgage industry to improve the quality of credit available to consumers, improve underwriting standards for all loan providers, ensure consumer protection provisions, and punish those who engage in predatory or abusive practices. The economy has not benefited from placing consumers in unaffordable and unsustainable mortgages. Instead, state supervisors are working with the Board and the federal regulators to create a marketplace with cooperative, seamless, and transparent supervision that protects consumers and benefits providers.

Best personal regards,

Neil Milner
President and CEO, CSBS

David Bleicken
President, AARMR

Joe Mulberry
President, NACCA

CSBS/AARMR RESIDENTIAL MORTGAGE MODEL DISCLOSURE EXPLANATORY STATEMENT v.6

The attached Model Disclosure v.6 is an initial draft only. Its purpose is to initiate discussion and expose alternatives to the traditional required disclosure forms (primarily TILA and GFE). This disclosure form is currently in its sixth revision. Revisions are the result of state regulator review and suggestions for improvement to the disclosure.

There are several problems with existing early federal disclosures that have been identified over the years. Some of these are:

- Complexity and lack of clarity. Often the disclosures are even confusing for the trained professional, much less the average consumer.
- Too little information. Some of the most important information a borrower requires in order to make an informed decision is not required in the existing disclosures. For example, there is no requirement to show the borrower the loan amount, the interest rate or the full amount of their monthly obligations in any of the early federal disclosures.
- Too much information. In some areas there is simply too much complicated information for the borrower to understand. For example, the TIL boldly expresses APR, Finance Charge, Amount Financed and Total of Payments, none of which the borrower finds very useful in understanding the offered loan.
- No requirement for actual provision. Federal regulation requires that the TIL and GFE simply be placed in the mail without any proof of having done so. Neither form requires a borrower's signature or acknowledgement of receipt. With no required acknowledgement, many investigations have found that essential disclosures were never provided to borrowers, although produced for the regulator as file documentation.

FORMAT

The intent of the format is twofold:

1. To provide a single, double sided, 8.5x11 inch disclosure form that gives the borrower just enough clear information to make an informed decision, and
2. To limit a loan originator's ability to misrepresent the transaction and to commit the company to a straightforward and realistic expression of the loan offered.

The disclosure form initially advises the borrower that the document should be read in its entirety and that there are two pages of information to the disclosure (to prevent a single side delivery). The bottom of page 1 requires specific acknowledgement of provision by the originator or company representative and acknowledgement of receipt by the borrower. Page 2 of the form tells borrowers how to compare loan terms and existing payments to offered payments.

DISCLOSED INFORMATION

Proposed Terms of Your Mortgage Loan

- Loan Amount: Actual dollars to be borrowed, versus Amount Financed on TIL.
- Loan Type (e.g., 30 year fixed rate): Not required by existing disclosures.
- Note Rate: The note rate from which the actual monthly payments are derived.
- Initial Payment: Which includes taxes, insurance and other monthly amounts.[1]
- Highest Potential Payment: The highest the borrower's payment can reach and the earliest date it can be reached. This disclosure includes principal and interest and the amount of "known" reserves. This payment is footnoted to explain that today's reserve amount should be expected to increase over time.
- APR: The disclosed annual percentage rate derived for the TIL disclosure.

The Following Costs or Fees Are Proposed on This Loan
(Rather than a litany of costs with vague descriptions (current GFE), this early form shows total fees to be paid to each of the originator (e.g. mortgage broker), the lender, and all other parties. A borrower's early decision is not dependent on knowing each and every cost item, but rather, how much the loan will cost. A lengthy list of possible costs confuses and hides potential overcharges and makes comparison between originators very difficult.)

- Origination Company: The total dollar amount, except YSP, paid directly to the originator at closing. If no separate origination company then all fees would appear under Lender/Funder.
- Lender/Funder: The total dollar amount paid directly to the lender or funder at closing. Includes discount points paid to lower the rate.
- Other Service Provider: Includes all of the costs not paid to the origination company or lender/funder (e.g. appraisal, credit, title, closing, etc.).
- Yield Spread Premium (YSP): The amount paid by the lender/funder to the origination company for a loan with a higher rate.
- Total Transaction Dollars: The total of the four previous boxes.
- $ Due From You at Closing: How much the consumer will need to bring to closing.
- This section further details the following:
    - A description of yield spread premium.
    - A table of transaction dollars that totals to the Total Transaction Dollars.
    - The effect that discount points and YSP have on the borrower's rate.

Additional Terms and Information

- Prepayment Penalty: A simple Yes/No answer with a direction to page 2 for greater description.

[1] While this disclosure form requires the originator to clearly disclose the inclusion or exclusion of monthly reserves in a dollar amount, it has been suggested that originators be required to disclose the actual dollar amount of excluded reserves in an "effective" monthly payment so that borrowers are reminded of the full obligation owed.

- Payments #/Frequency: How many payments and how often they occur.
- Maximium Rate Possible: The highest rate the loan can ever achieve and the earliest date the rate can be reached.
- Rate Adjustments: The percentage the rate can change at each period.
- Worst Case Rate Change Schedule: A simple schedule, assuming an increasing rate environment, of rate change dates and the expected rate.

BACKSIDE OF DISCLOSURE

The backside of the disclosure provides additional important information to the consumer that is not available in the federal forms:

- A short guide to comparing loan terms and a simple comparison of the borrower's exiting monthly obligation to the proposed obligation in a refinance. This key comparison eliminates one of the prime deceptions used by predatory lenders to convince borrowers to refinance their loan.
- Qualifying Monthly Income: A section that discloses the income used to approve the loan and a monthly debt to income ratio. The purpose of this section is twofold: i) To have the borrower "verify" income used, and ii) To notify the borrower the amount of their income it will take to satisfy the monthly payments.
- Information about nontraditional features such as negative amortization, repricing and the effects of borrower "payment shock" with these features.
- A prepayment penalty table that shows the actual dollar amount of penalty to be paid by the borrower at each early payment period throughout the penalty term.
- Balloon Payment information and what the borrower should expect.
- Demand Payment information and what the borrower should ask.
- Reduced Documentation disclosure that informs the borrower of reduced documentation underwriting and the risks associated with this feature.

READ THIS FORM CAREFULLY IN ITS ENTIRETY – THERE ARE TWO PAGES TO THIS FORM

Borrower name(s):____________________________. Property address:____.

Originating Company:_________________________. Date of application:________. Date disclosure prepared:_________.

This disclosure is provided in addition to specific disclosures that may be required under federal and state law. The intent of this disclosure is to provide you with a simple, clear explanation of your proposed loan terms and costs. Additionally, by following the steps outlined on page two of this document, you may compare the proposed terms to the final terms at closing.

PROPOSED TERMS OF YOUR MORTGAGE LOAN

Loan Amount	Loan Type	Note Rate	Initial Payment	Highest Potential Payment	APR
$100,000.00 .	30 yr Adjustable	7% **Subject to change**	$925.30 See notice below	$1,339.71 ***** May be reached by June 1, 2013	9.28%

The payment above includes the note amount payment of $665.30 and $ 260.00 of ☒ Taxes ☒ Property insurance ☐ Mortgage insurance ☐ Other. These amounts, known as monthly reserves, are subject to change on a periodic basis. Your loan payment plus the monthly reserves equals the amount you are responsible to pay. ***** The highest potential payment includes today's reserve amount – you should expect this to increase over time. The initial payment amount is based on a term of 30 years and has a final payment of at least $665.30 in principal and interest due on June 1, 2037.

THE FOLLOWING COSTS OR FEES ARE PROPOSED ON THIS LOAN

Origination Company (if any)	Lender/Funder	Other Service Provider	Yield Spread Premium (YSP) to Origination Co.	Total Transaction Dollars	$ Due from you at closing
$2,500.00 .	$1,300.00	$1,800.00	$2,000.00	$7,600.00 See important note below	$600.00

These costs and fees are more fully detailed on the good faith estimate and settlement statement disclosures, the totals of which should closely match the above. Yield Spread Premium (YSP) refers to a fee paid by the lender to the origination company because this loan carries a higher interest rate. In some cases, the YSP may offset other costs. You should inquire about this offset.

Total transaction dollars will be paid as follows:

	$ 600.00	paid out of pocket by you at closing
	$5,000.00	financed and included as part of your loan
	$ 0.00	paid by others on your behalf
	$2,000.00	YSP to origination company
Total	$7,600.00	

The following costs have an effect on your loan rate:

- The Lender/Funder costs include $1,000.00 in discount points that have lowered your rate by 0.25%.
- The YSP costs of $2,000.00 have increased your rate by 0.50%.
- Without these costs your rate would be 6.75%

ADDITIONAL TERMS AND INFORMATION

Prepayment Penalty	Payments #/Frequency	Maximum Rate Possible by June 1, 2013	Rate Adjustments	Worst Case Rate Change Schedule
YES (See pg 2)	360/Monthly	13.00%	1% every 12 months	June 1, 2008 8.00% June 1, 2009 9.00% June 1, 2010 10.00% June 1, 2011 11.00% June 1, 2012 12.00% June 1, 2013 13.00%

Your home is at risk. If you do not make the required payments on your home loan, or fail to pay any property tax obligation you could lose your home and possibly any equity in your home.

This disclosure was provided by ____________________ (Representative) of __________________(Company), on ________(Date).

Loan originator signature:____________________. Loan originator license number ________. Company license number __________.

STOP! THERE ARE TWO PAGES TO THIS FORM. YOU SHOULD RECEIVE THIS FORM WITHIN 3 DAYS OF THE DATE OF YOUR APPLICATION FOR A MORTGAGE LOAN. HOWEVER, FOR YOUR OWN PROTECTION DO NOT DATE THIS FORM ANY OTHER DATE THAN THE DATE ACTUALLY RECEIVED BY YOU. DO NOT LEAVE THE DATE SECTION BLANK. DO NOT SIGN UNLESS YOU HAVE READ AND UNDERSTAND BOTH SIDES OF FORM.

____.
Borrower Date

____.
Borrower Date

IMPORTANT ADDITIONAL INFORMATION ABOUT YOUR LOAN
READ CAREFULLY

How to compare loan terms: The Loan Amount, Loan Type, Rate, Rate Adjustment, and Note Payment should be compared to the Note you sign at closing. The costs identified on page 1 of this form are derived from a disclosure known as a Good Faith Estimate. You should compare the costs on this form to the Good Faith Estimate before signing either disclosure. You should compare the costs on this disclosure, or a revised version of this disclosure, to the HUD Settlement Statement you will receive at closing. **You are not obligated to take this loan. Consider your options carefully.**

Comparing Monthly Payments for Refinances: If you are refinancing your existing loan your monthly payments will change as follows:

Current loan type:	☒ 30 yr fixed ☐ ARM	Proposed loan type:	☐ fixed ☒ 1 yr ARM
Current principal and interest:	$ 705.93	Proposed principal and interest:	$ 665.30
Current monthly reserves:	260.00	Proposed monthly reserves:	260.00
Current total:	$ 965.93	Proposed total:	$ 925.30

Qualifying Monthly Income: The loan being offered to you is based on your gross monthly income of $ 6,250.00. The starting payment on this loan, including taxes, insurance and other items will be 14.80 % of your monthly income.

Monthly Payments and Amortization (loan balance reduction): Your loan does ☐ does not ☒ contain payment features or options that may result in no reduction in your principal balance owed over time or possibly an increase in the amount you must repay over time. In certain cases, the payment choice you make early in the life of the loan may result in an effect known as "payment shock." Payment shock results when you choose to make a payment that is insufficient to retire or "amortize" the loan balance over the life of the loan. In such situations, the loan will "reprice" or "recast" to a new payment amount, which may be substantially higher than you are accustomed to paying. Your loan representative should explain these features to you carefully, including realistic examples of how the choices you make can affect the amount of money you owe.

Prepayment Penalty: Applicable to your loan ☒ Not applicable to your loan ☐
A prepayment penalty means that if you attempt to pay off or refinance the loan early, you will pay a penalty in **ADDITION** to the interest and principal due under the loan.

If you refinance or pay this loan off early, you will pay these additional fees (penalties):
$3,483.91 if you pay more than $20,000 above the amount of principal owed in the first year after you get this loan
$3,943.05 if you pay more than $20,000 above the amount of principal owed in the second year after you get this loan
$__,____ if you pay more than $______ above the amount of principal owed in the third year after you get this loan
$__,____ if you pay more than $______ above the amount of principal owed in the fourth year after you get this loan
$__,____ if you pay more than $______ above the amount of principal owed in the fifth year after you get this loan

Balloon Payment: Applicable to your loan ☐ Not applicable to your loan ☒
A balloon payment is a final lump sum payment due at the end of your loan. If you do not have the funds to pay off the balloon payment when due, you may have to obtain a new loan to make the balloon payment. If you do not have the money to make the balloon payment, you may lose your property and all of your equity in your home through foreclosure. Before deciding to take this loan, consider your ability to pay the balloon payment. The balloon payment on this loan is due X years from the date your loan begins. The final balloon payment due is $ 0.00.

Demand Payment Applicable to your loan ☐ Not applicable to your loan ☒
A demand payment provision means that the holder of your loan can demand payment in full if certain conditions are met. Before deciding on this loan, ask your broker or lender what circumstances allow the holder of the loan to demand payment in full.

Reduced Documentation Applicable to your loan ☐ Not applicable to your loan ☒
Your loan is being underwritten and approved without full documentation of your employment, income, or financial situation. Regardless, all statements made by you or your loan representative must be accurate and true. Inaccurate or untruthful statements are a serious violation of law and may result in criminal penalties. Your loan representative should explain to you any additional cost associated with a reduced documentation loan.