



**AMERICAN FEDERAL  
MORTGAGE**

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JUL 27 2007

DEPARTMENT OF BANKING  
LEGAL SECTION

Office of Chief Counsel  
Pennsylvania Department of Banking  
Attn: Public Comment on Regulation 3-43  
17 N. Second Street, Suite 1300  
Harrisburg, PA 17101-2290

INDEPENDENT REGULATORY  
REVIEW COMMISSION

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To Whom It May Concern:

American Federal Mortgage is a licensed first and second mortgage lender in the State of Pennsylvania and we are writing to suggest further review of Regulation 3-43, specifically, 46.2 Section (e) Evaluation of Applicant Ability to Repay. While we commend the Department for its attempt to curb abusive lending practices, we feel that this provision will reduce American Federals competitive advantage and reverse some of the important technology gains that the mortgage industry has seen over the last decade.

American Federal Mortgage is an "A" paper lender with less than 5% of its total business falling into the category of "Alt-A" or "Subprime". Our model includes the use of Fannie Mae's Desktop Underwriter (DU) and other automated underwriting engines similar to DU. When an applicant applies to American Federal, an originator completes a loan application with the applicant and the loan is run through DU by one of our underwriting staff. In many instances, since most of our clients have credit scores above 700 and Loan To Values below 80%, income documentation is not required. DU will simply require a lender to obtain a verbal verification of employment prior to the closing of the loan.

This model has produced a delinquency rate for American Federal of less than 1/2 of 1% and resulted in hundreds of referrals from previous customers due to the speed and efficiency we've shown in processing mortgages. The use DU and other technological innovations has also allowed American Federal to keep our overhead low, therefore reducing our required margin and allowing us to provide an extremely aggressive rate and fee combination to our clients. We are afraid that by requiring "full" documentation on every loan that we will be required to increase staff and therefore have to look at our margins more carefully ultimately resulting in a higher rate and/or fee combination to our applicants.

We ask that the Department consider an amendment to the published Regulation 3-43 rule to waive the evaluation of the applicant's ability to repay a loan when the loan has been processed through Fannie Mae's Desktop Underwriter or Freddie Mac's Loan Prospector. Fannie and Freddie only allow verbal verifications on the highest quality loans and these loans are not the origin of the credit crisis that the mortgage industry is seeing today. Most loans processed through DU with credit scores under 700 and LTV's above 80%, require at least a pay stub for income documentation.

American Federal once again commends the Department for their aggressive stance on abusive lenders and unfair lending practices and we believe that this rule will make great strides to cleaning up our industry. Thank you for your consideration of our comments and please don't hesitate to contact me should you have further questions.

Regards,

Andrew R. McElroy  
Vice President  
American Federal Mortgage Corporation