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Pennsylvania Department of Banking
Attn: Office of Chief Counsel
17 North Second Street · Suite 1300
Harrisburg, PA 17101

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INDEPENDENT REGULATORY
REVIEW COMMISSION

AUG 17 2007

DEPARTMENT OF BANKING
LEGAL SECTION

John L. Mattaboni
15 Country Road
Northampton, PA 18067

Dear Members of the IIRC and All Interested Parties:

I am writing in regard to the proposed changes to Title 10, Banks and Banking Laws of the State of Pennsylvania, Annex A of Chapter 46, Proper Conduct of Lending and Brokering in the Mortgage Loan Business. As a licensed mortgage broker, I am also requesting an opportunity to speak before the commission regarding this important matter.

While I find much of the proposed change to be sound policy on the part of the Department of Banking, there is one particular item that I believe to be ill advised, if I may use such a strong term.

I am referring, specifically, to Section 46.2(e) which proposes to mandate that all licensed mortgage agents in the State of Pennsylvania analyze and document a mortgage applicant's ability to repay a loan as a precondition to offering said loan. The intention of this change is to ensure that potential buyers do not get themselves into loans that they subsequently cannot repay.

Unfortunately, one *unintended* consequence (among many) will be financial ruin for borrowers that utilized a "low doc" adjustable rate mortgage in purchasing their home. This change in the law will trap them in a loan with a payment they cannot afford and no ability to refinance into a fixed rate loan. We can expect to see the foreclosure rate skyrocket across the state. Please allow me to explain further.

While on the surface enacting the law might seem like a wholly reasonable course of action, it will have the deleterious effect of eliminating entire categories of mortgage products which lenders make available to prospective homebuyers. By definition, it will eliminate all manner of "low doc" and "no doc" loan programs. These loan programs fill a vital need in the mortgage market and are the result of decades of industry effort to accommodate homebuyers with a diversity of documentation levels available to them.

Each household's overall financial picture and credit profile is as individual and unique its owner's fingerprint: no two are alike. The spectrum of income arrangements is dizzying in its variety.

Mortgage lenders are aware that not every prospective borrower will fit into the full documentation mold, so they offer a plenitude of products to cater to the spectrum of borrower circumstances.

The ability of lenders to be flexible with loan documentation levels has a great societal benefit. It turns hard working families crammed into small apartments into proud new homeowners with a backyard and a bedroom for each child.

Over the course of the last five years, the nation has undergone a housing boom that has put millions of apartment renters into their first homes. It has enabled millions of families to step up to bigger and better homes. Is it any wonder that with such dramatically increased mortgage activity there is a concomitant increase in the number of late payments or foreclosures?

Some people simply bite off more than they can chew – always have, always will. And it is true that “low doc” mortgage products make that possible in certain cases. But to have the state protect them from themselves by eliminating entire categories of mortgage products is to punish the other 98% of homebuyers that use those “low doc” products responsibly and to great benefit.

Enacting the change envisaged in 46.2(e) into law will have three major negative effects on the mortgage and housing industry in the state of Pennsylvania:

Firstly, it will substantially curtail the rate of home ownership. Any prospective homebuyer that would have responsibly used a “low doc” program to qualify for their mortgage will have been “protected” right out of the American Dream, courtesy of the state.

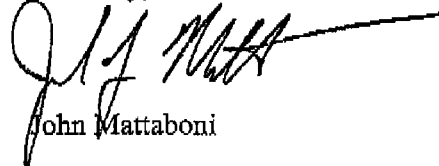
Secondly, for some potential “low doc” candidates, it will take them straight out of the realm of a Fannie Mae conforming loan and force them to seek financing in the subprime world, where the rates and payments are higher. More money unnecessarily going into a lender’s pocket is money that can’t be spent on a better quality of life for the homeowner and in support of the local economy.

But more immediately, and just as importantly, it will have disastrous consequences for the very people the law purports to help. All of the current homeowners with adjustable rate mortgages that were obtained with a “low doc” loan product will be doomed to foreclosure because they will be unable to refinance their mortgage into a fixed rate loan. At best, we can expect that they will collectively dump their houses on the market, further driving down real estate values across the state.

Lower rates of home ownership, lower quality of living, less cash flowing through the state economy and tax coffers, foreclosure, lower real estate values: these are the inevitable unintended consequences of the state telling lenders which loan programs they will and will not allow. And lest anyone be unaware of it, the market is responding as it always does, by correcting the situation with more stringent “low doc” requirements.

I understand that the intention is good and in a perfect world no consumer would bite off more than he could chew, but the proposed solution is draconian and will have dramatic and widespread negative effects into the foreseeable future. I exhort the committee to reconsider the entirety of this well-intentioned but misguided change to existing law.

Sincerely,

A handwritten signature in black ink, appearing to read "John Mattaboni", with a long horizontal line extending to the right from the end of the signature.

John Mattaboni