June 1, 2007

Regulation Comments, Chief Counsel's Office,
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552 Attention: No.2007-09

Subject Docket No. 2007-09
Topic: The Proposed Statement on Subprime Mortgage Lending

Dear Board of Governors:

My comments apply to the basic concerns that need to be addressed as described in your proposed Statement on Subprime Mortgage Lending. We must develop new and innovative approaches using the latest state of the art technological tools in order to seek solutions to these pressing issues.

1) Subprime borrowers may not fully understand the risks and consequences of obtaining these products.
2) An institution's analysis of a borrower's repayment capacity should include an evaluation of the borrower's ability to repay the debt.
3) The statement also underscores that communications with consumers should provide clear and balanced information about the relative benefits and risks of the products.

The basis for my comments were derived from my unique perspective gained from 30 years as an educator, Professor of Accounting and Taxation, at Kean University School of Business, as well as 30 years professional experience gained as a practicing CPA and Consultant. I have recently concluded 5 years of research on the topic of Small Business Failure. As a by-product of my research findings, I have also developed an understanding of how to address the mortgage foreclosure phenomenon.

A slogan that I recently encountered exemplifies a solution to the foreclosure phenomenon. "Let's not react to an accident. Let's prevent one." This suggests a proactive approach to the important interaction between the borrower and the banker.

This proactive approach involves an efficient and effective form of communications between the borrower and the banker in order to prevent mortgage delinquency and foreclosure. The borrower should be guided in his/her understanding of the implications of the decision to borrow money, and the banker should be in the position to effectively harness all of his/her knowledge to explain and help the borrower understand the implications of that decision. In effect, this involves the most effective form of financial literacy education, both for the borrower and the banker.

The problem is that in order for the borrower to make an "informed consumer choice", there is the requirement for knowledge on the part of these two individuals. First, the borrower must be knowledgeable in order to make the right choice and decision. The chances of that happening are very slim if at all. Second, the banker must be fully knowledgeable as well. The ability for the banker to carefully communicate the effects of the mortgage decision and the borrower's ability to fully understand the implications of the decision, in a clear and understandable form, is critical to the decision making process.

My concern is that the banker must not only be able to understand the product and advise the borrower, but he must be fully conversant and able to clearly educate the borrower, in order to help make the correct decision. At present, a critical aspect of this interaction is that imperfect human decision making, limits the effectiveness and accuracy that is necessary for the optimum decision. The key is that the borrower must be made to understand the options available to him/her, and the banker should have sufficient knowledge and the ability to explain the various aspects of the decision to the unique circumstance of the borrower. The decision making process falters when either of the two participants fails to perform as is required for an optimum decision. The question is whether the borrower can understand and whether the banker can help him/her make an informed decision.

Today, we are enjoying the benefits of "cutting-edge" technology, when we are able to use verbal communication to drive our cars, GPS navigation systems, answer our telephone calls, etc. Using artificial intelligence, we are now capable of making sense of financial data, in an efficient and accurate manner. We no longer must rely upon imperfect human decision making in order to arrive at the optimum decision, which can be understood by both participants in a clear and understandable narrative form. This technology is being used in so many areas, why not employ this latest state of the art technology to assist in this vital decision making process.

We must search for technological tools that can generate a narrative that is easily understood by the banker, so he can "hang his hat" on that explanation, and a narrative explanation can be used to educate the borrower. It would also be helpful to arrange that this narrative also be understood by Hispanic households.

Not only will the borrower make a better informed decision, but the technology can also be used to monitor the borrower's financial situation and help avoid and be prepared for "payment shock". The technological tool will permit the input of various variables both in income and expenditures such as after tax net wages, personal expenditures, rent, the impact of credit card balances, regular monthly payments on credit card balances, and other expenditures. Once these numbers are input into the software program, the technological tool will generate a narrative that the banker can understand and explain to the borrower. The narrative will be tailor-made for the unique and specific variables input for each borrower in a readable and understandable form that the borrower can take home with him/her to discuss with family and friends.

This narrative also is an aid to the banker. Since the technological tool prepares a narrative which allows both parties to estimate and project future changes in income and expenditures, the software narrative offers an opportunity for both to visualize whether the borrower will or will not be in a financial position to afford the mortgage payments at a later date.. This will help prevent mortgage delinquencies, foreclosures, and bankruptcies by allowing a look into the future, to see whether the borrower can handle the financial load under changing conditions.

The most powerful aspect of this technology is the ability to input increased mortgage payments and projected personal income and expenditures along with projected personal expenses into the software. This will allow the borrower and the banker to jointly determine whether, if the mortgage payment jumps to this “higher” amount in two to three years, can the borrower handle it.

This technology will also be an aid to the banker to avoid products that may pose an elevated credit risk to the financial institution. The banker is also relieved of negligence by this narrative which both he and the borrower can understand and jointly make an informed judgement of the ramifications of the decision. The technology also offers a means to monitor the borrower’s financial position so as to avoid unwelcome sudden shocks, such as “payment shock”. With this knowledge, we can help avoid the resulting mortgage delinquency, foreclosure, and bankruptcy.

This activity should apply for CRA service credit since it fulfills the mission of the Community Reinvestment Act. Consumers are in need of financial literacy education in order to help them make better and informed decisions when selecting a loan which fits their unique set of financial variables. The banker is also in need of guidance and an understanding of how to help the consumer make an informed loan decision.

The bank also has a vested interest in the interaction between the consumer and the banker so as not to fall prey to the accusation of predatory lending practices. The bank is also motivated to make sure that the consumer makes the best loan decision. My suggestion offers a win-win situation for all involved. Unfortunately, the current CRA service test does not offer the banks adequate incentive nor recognition to accomplish this task which is vital to the interaction between the consumer and the banker.

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