

**Salary.com comment on the Proposed Interagency Guidance on Nontraditional
Mortgage Products, dated December 29, 2005
Federal Register, Volume 70, No. 249**

Salary.com is pleased to submit comments regarding the Proposed Interagency Guidance on Non Traditional Mortgage Products. As expressed in the draft guideline issued December 29, 2005, the Agencies ask for comments on several issues regarding nontraditional mortgage products including whether lenders should analyze each borrower's capacity to repay loans and "what specific circumstances would support the use of the reduced documentation feature commonly referred to as 'stated income' as being appropriate in underwriting nontraditional mortgage loans."

The Agencies point out in the Guideline that "To manage the risks associated with nontraditional mortgage loans, management should ensure that loan terms and underwriting standards are consistent with prudent lending practices, including consideration of a borrower's repayment capacity." The draft goes on to say that "Furthermore, the analysis of repayment capacity should avoid over-reliance on credit scores as a substitute for income verification in the underwriting process. As the level of credit risk increases, either from loan features or borrower characteristics, the importance of actual verification of the borrower's income, assets, and outstanding liabilities also increases....As the level of credit risk increases, the Agencies expect that an institution will apply more comprehensive verification and documentation procedures to verify a borrower's income and debt reduction capacity."

Salary.com does not intend to comment on policy via this response but simply to provide information in our area of expertise—market salary data and verification—which may be useful to the Agencies regarding a way in which banks and the Agencies can qualify salary and address some of the concerns raised in the Guideline.

Salary.com is a leading provider of salary data to human resources and mortgage professionals. We have the largest number of compensation software and data customers in the industry. Salary.com has a staff of compensation professionals who collect and analyze employer-reported salary data and use it to answer the question "how much is a given job worth?" Data are always current.

For the mortgage industry specifically, Salary.com's PayScore product is web-based and enables mortgage users to better qualify applicants' salary claims so they can better assess the potential borrower's ability to repay the loan. PayScore also provides a clear audit trail of the salary review process. By comparing relevant data from a mortgage application to our database of comparable job and employer characteristics, we are able to return a salary range that clearly states whether an applicant's stated income is within or outside of a reasonable range. Lenders can use this range to verify the reasonableness of the reported salary and include this information with the other factors (credit and collateral) to fully assess the borrower's ability to pay.

Banks use PayScore to:

- Qualify salary claims for “stated income” or other loans.
- Provide an audit trail for internal or external compliance.
- Reduce the default rate tied to falsified pay data on full documentation loans (secondary verification).
- Provide an alternative or secondary verification to form 4506 (assuming that an applicant that falsifies W-2 data may also falsify a tax return).
- Facilitate post-closing due diligence.
- Evaluate pools of mortgages for purchase in the secondary market.

Salary.com is not in a position to provide an opinion on whether the Guideline’s recommendations are necessary or appropriate—we leave that to the experts in lending and consumer affairs. We do, however, suggest that should the Agencies require lenders to be more diligent in assessing borrowers’ ability to repay based on their salaries (or if lenders should choose to do this on their own), it can be achieved by adding an income verification step based on information reported by the user and a tool like PayScore.

If you have any questions or would like further comment, we’d be happy to respond. Please feel free to contact me directly.

Sincerely,

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