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Tim Kunze 04/05/2000 14:07

To: consumer.complaint@ots.treas.gov
cc:
Subject: Predatory Lending

I am writing you as a result of an article in today's Orange County Register business section with the heading, "Federal regulator seeks 'predatory lending' input." This article states, "The office (OTS) is seeking public and industry input on how widespread abusive mortgage-lending practices may be..."

My input is more general than applicable to any specific lendor and, I believe is a result of federal regulations.

I refinanced my home a little more than a year ago, combining a first and second mortgage into a single first. As a result, my total financed amount came to $202,500.00. The appraisal I got in compliance with the mortgage company's requirements came in at $225,000.00. This resulted in a loan-to-value ratio of 90%. Because of this, I am required to make monthly payments for "Mortgage Insurance", commonly referred to as PMI.

I have two big problems with this practice. First, you are required, by law, to carry PMI if you finance more than 80% of the appraised value of your home. HOWEVER, to get PMI dropped, your current LTV must be below 75%. Why should there be any difference between the two requirements?

My second, and much larger, problem with PMI is the price. I am paying $79.31 each month for this insurance. As I understand it, the purpose of this insurance is to protect the lender from any losses incurred if they have to foreclose and sell the property. The amount of protection is the difference between the amount for which they could sell the house and the current loan balance.

Now, lets say that the lender could sell my home, which is currently worth between $240,000 and $250,000 for $190,000. My current loan balance is $199,651.25 which means the current payoff is probably a little over $200,000, lets say $202,500. That means that the lender would incur a loss of $12,500.00. What is the cost of a decreasing term life insurance policy, since that, in essence, is what PMI is? I would guess that, at the high end, it would fall somewhere under $20.00 per month.

That means that the mortgage company or PMI provider is netting at least $60.00 each month in profit. Keep in mind that an insurance company that sells you a policy for $20.00 has some profit built into that amount, based on actuarial tables.

This is entirely unacceptable. You and/or Congress needs to do something about this "predatory" practice. I think the borrower should be allowed the opportunity to provide his own insurance policy with the lender as beneficiary. That would force the lenders to compete with the rest of the insurance industry and, therefore, bring their premiums within a reasonable approximation of the accepted industry standards.

Signed,

Tim Kunze
5422 Christal Ave.
Garden Grove CA 92845

(714)778-0123, ext. 130 (work)
(714)894-8320 (home)

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April 10, 2000

Tim Kunze
5422 Christal Ave.
Garden Grove CA 92845

Office of Thrift Supervision
West Region
Attn: Christopher Alpen
Consumer Affairs
P.O. Box 7165
San Francisco CA 94120

Mr. Alpen,

I was given your name by one of your co-workers in Washington D.C. He ended up with the attached email and suggested I address one of my concerns with you.

The issue I have is, for the most part, laid out in the email (highlighted section) so I'll not rehash it here.

Is there something your regional office or the state legislature can do to address what I consider to be piracy by the mortgage industry in the area of PMI?

Thank you for your attention to this matter.

Sincerely,

Tim Kunze

Atch. Email, "Predatory Lending"

Office of Thrift Supervision
Department of the Treasury

West Region

P.O. Box 7165, San Francisco, CA 94120-7165
Telephone: (415) 616-1500 • Fax: (415) 616-1752

APR 1 8 2000

Mr. Tim Kunze
5422 Christal Avenue
Garden Grove, California 92845

Case No. 50045000

Dear Mr. Kunze:

Thank you for your very thoughtful letter, dated April 10, 2000, with regard to the requirement of Private Mortgage Insurance (PMI).

As you may know, the Office of Thrift Supervision has recently begun a full-scale review of its mortgage lending regulations to determine how they impact the sub-prime market, with the primary goal of furthering responsible lending and encouraging thrifts to make safe and sound loans (both prime and sub-prime). We have forwarded a copy of your letter to the appropriate staff in Washington, D.C., for further review.

Thank you for writing and communicating your concerns.

Sincerely,

Consumer Affairs Department