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Sent: Wednesday, July 05, 2000 4:01 PM
To: 'public.info@ots.treas.gov'
Subject: OTS Docket No. 2000-34



OTSdocket#2000-34.d

cc

Ladies and Gentlemen: World Savings Bank, FSB is pleased to offer its attached comment on the above referenced docket number and we thank you for your consideration. Please refer any questions to the sender or to David S. Madsen, Group Senior Vice President at the address in the letterhead in our comment.

<<OTSdocket#2000-34.doc>>

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WORLD SAVINGS BANK, FSB

1901 Harrison Street

Oakland, California 94612

VIA E-MAIL: public.info@ots.treas.gov

July 5, 2000

Manager, Dissemination Branch
Information Management and Service Division
Office of Thrift Supervision
1700 "G" Street, NW
Washington, D.C. 20552

ATTENTION: Docket No. 2000-34 - Responsible Alternative Mortgage Lending

Dear Ladies and Gentlemen:

World Savings Bank, a Federal Savings Bank headquartered in Oakland, California, is pleased to have this opportunity to comment on behalf of itself and its affiliate, World Savings and Loan Association, a Federal Savings and Loan Association, also headquartered in Oakland, California (collectively "World") regarding the above-referenced advance notice of proposed rulemaking.

We too are very unhappy with the practices engaged in by certain lenders who take advantage of vulnerable loan applicants, and we applaud the initiative of the OTS to curb these practices. As you know, World is not a subprime or high-yield lender, and we do not engage in any so-called predatory lending practices. In addition to our long history of making adjustable and fixed-rate mortgage loans in the most straight-forward and principled manner, World prides itself on the role it has taken and continues to take in working with community groups interested in increasing real estate lending services in underserved markets. In this context, World strongly supports the OTS' review of its mortgage lending regulations to ensure that they are meeting the purposes for which they were intended, and that they do not facilitate abusive mortgage lending practices.

While we feel a strong need to curb abusive lending practices and support the OTS' efforts to that end, we nevertheless are concerned that a "broad brush" approach can have an inappropriate impact on non-predatory lenders like World. Specifically, we do not see any need for further regulation in the area of first lien purchase money real estate loans. We also urge the OTS to consider the impact of any modification to its regulations on non-predatory insured, depository lenders offering legitimate products.

There seem to be four major categories of behavior in which abusive lenders habitually engage:

- loan flipping
- excessive fees and fee "packing"
- asset based lending without any consideration of a borrower's ability to pay
- deceptive and high-pressure sales tactics, especially in regard to vulnerable borrowers.

Rather than taking the overly broad approach to regulatory review, we suggest the OTS take an approach targeting practices in these four categories. When reviewing the practices of predatory lenders (such as First Alliance), it appears that a targeted approach would have made it difficult if not impossible to have engaged in many egregious activities. We therefore respectfully suggest that the OTS target modifications to its regulations in regard to these four abusive practices. This targeted approach might be accomplished by increasing disclosure requirements (perhaps by paralleling the high-cost mortgage disclosure requirements contained in Federal Reserve Regulation Z), creating a "cooling off" period similar to that in Regulation Z applicable to rescindable loans, limiting refinance transactions when there is no economic benefit to the borrower and limiting certain types of asset based lending.

However, no regulatory program should result in a lender essentially ensuring the borrower's ability to repay. No lender can guarantee that a borrower will not lose his or her job, suffer a debilitating medical problem, or encounter some other unforeseen difficulty in repaying a loan. In this context, making a depository lender legally responsible for the borrower's ability to repay a loan must be considered very carefully indeed, and every protection must be given to lenders who employ reasonable underwriting procedures when granting credit.

In addition to reviewing its own regulations, we encourage the OTS to work with the other federal financial regulatory agencies to develop an interagency approach within the context of the Home Equity Protection Act (HOEPA) and the Alternative Mortgage Transaction Parity Act of 1982 (the Parity Act). An interagency effort should include both a unified approach to regulatory reform and increased enforcement of existing regulations. An interagency approach helps ensure that no one group of regulated institutions is placed at a

competitive disadvantage and that institutions chartered by the several states and which offer products under the auspices of the Parity Act are properly considered.

Finally, we encourage the OTS to continue to participate in the legislative process. In the very near future, Congress reportedly intends to address abusive lending practices through legislation in the form of modifications to HOEPA, the Parity Act, and Department of Housing and Urban Affairs (HUD) regulations. World believes that many of the recommendations for legislative and regulatory action made in the recently released HUD-Treasury report on predatory lending are on point and reflect the approach that legislation should take. In that regard, we would like to take this opportunity to commend Secretaries Cuomo and Summers for their efforts in producing that report. We believe that a Congressional legislative approach to ending the egregious behavior engaged in by some unethical lenders (together with increased levels of enforcement of existing regulations and an interagency approach to new or modified regulations recommended in the report) will help avoid the potential problem of creating a competitive disadvantage for ethical lenders as well as help curb abusive lending practices engaged in by unethical lenders.

During the legislative process, it is possible specific features of mortgage lending could come under review, including prepayment fees, negative amortization and similar provisions. Any such review should be highly focused and should not undermine the ability of reputable lenders to offer a broad range of products and likewise to protect safety and soundness. In this regard, we applaud OTS Director Seidman's recent testimony on predatory lending before the Committee on Banking and Financial Services of the House of Representatives. Director Seidman's testimony accurately captured the complex nature of the issue.

Thank you for the opportunity to express our views on this very important topic.

Very truly yours,

David S. Madsen
Group Senior Vice President
Loan Compliance
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