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Subject: Regulation Z

A natural consequence of any failure the size of the mortgage debacle is an outcry for more oversight and regulation. Historically, these backlashes don't work very well. Anytime hard walls are placed in highly complex systems, people figure out ways to sidestep those walls. The only way to fix the sidesteps are more hard walls. Just look at the Federal Tax code.

In the 80's, a backlash of regulation drove Federal Regulators to make changes that drove a lot of companies to find ways to have lending operations off the books. This led to an explosion of creative and complicated financial instruments like CDO's and SIV's.

After Enron, a backlash of regulation drove Federal Regulators to make changes that cause companies to value assets each day as if they were going to sell them the same day. This has caused massive financial write-offs and unwarranted downgrades that have brought 100 year old companies to their knees. Further regulation with SO caused dozens of huge companies to take themselves private again to avoid the hyper scrutiny of overblown regulation.

There is absolutely no doubt that major changes need to take place – but those changes need to address the source of the problems rather than the surface. Start with a massive reform of the bloated Federal RESPA guidelines. Simplify the process and make it more transparent for consumers. The solutions are greater clarity and less regulation.

Dramatically curtailing the efforts of the Mortgage Brokers with onerous regulations will further choke an already ailing credit system. The damage will resonate for years in the housing market I urge you to reconsider the passage of these regulations.

The facts are these: A massive credit expansion was caused by domestic monetary policy (avoidable) and the evolution of new investment debt instruments that effectively increased the money supply and hyper accelerated credit extensions (partially avoidable). These factors created manic behavior with investors around the world and rational people/markets behaved irrationally (unavoidable). The system collapsed under its own excesses and because of the extraordinary connectivity of the global markets in the modern era, penetrated deeply and broadly (unavoidable).

No matter how convenient it may seem to blame Mortgage Brokers for the mess, it is not accurate. Deep and fundamental issues in the Federal Banking System need to be addressed. It seems though that the political will and the foresight required to address them are woefully lacking. Please do not take the easy way out here.

I am hopeful of course that you may read and consider my comments and those of thousands of others. But of course, I am also a realist and I know that people want a 'human' villain to string up. Railing against Federal Monetary Policy lacks a human face; blaming those awful Mortgage Brokers might satisfy the thirsty mob. If you, and others like you can not resist this path, we will most certainly come to regret having played the blame game in the coming decades.

Respectfully,
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