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Proposal: Proposed Statement on Subprime Mortgage Lending
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Comments:

My congratulations on your proposed statement on Subprime Mortgage Lending. Our community bank does not offer any type of long term mortgages but in the past we have helped individual bank customers that have entered into these types of loans. (Both as to offering interim solutions or directing them to NON-predators lenders or products. Below are to real cases that I personally was involved in but some of my lenders have similar stories. As the two cases show this type of products have undesirable results for both low, or high income customers. CASE 1. The husband of our customer signed and executed all documents as the borrower and had the wife execute the mortgage (but not the note) on a refinance with cash out. Subsequently, the wife kept the house in a divorce settlement and found herself with a very large interest rate (after an initial low rate) and a \$ 6,000.00 prepayment penalty (approximately 8% of the principal amount outstanding) that had one year to expire. Our bank recommended that she wait the year and then we gave her an interest only loan (fixed) for three years in order for her to improve her credit (after filing for bankruptcy due to her ex-husband obtaining numerous credit cards (and naming her as spouse) during the separation period. Our bank had to request the pay-off letter twice since the first time we requested the payoff with a date after the expiration of the pre-payment penalty, the penalty was still included. A second request was made after the expiration of the prepayment penalty but the payoff also included in the pay-off even though the time period of the penalty had expired. I personally made a phone call to the (foreign) call center who informed me that they normally include the prepayment penalty and it is up to the borrower or new lender not to pay it. I don't know how OTS allows OWCEN to follow this practice. Other Information: Borrower (Female-Head of household). Current Checking Account customer. Predatory Lender: OCWEN Savings Bank (OTS) LTV: at time of Ocwen refinance loan 60%. Income of borrower: \$28,000 Potential of Increase in Income: Minimal (medical secretary) Outcome: Our bank was paid off a few months prior to expiration of our 36 month loan when she was able to refinance for an interest only loan (with a higher principal loan in order to pay-off a car loan) for 5 years. This loan will convert to a 25 year amortization loan in approximately 4 years. Current credit score of borrower: 718 Number of times late over 15 days (in over three years after OWCEN) NONE CASE 2. A relative of a bank customer. He is a firefighter and spouse is a

registered nurse. Combined income is over \$100,000 and their credit score is excellent. The customer bought a high rise condominium (requested by lender rep to apply as second home even though the purchase was for an "Investment"). This condo was acquired with a 95% LTV loan. The first year it had a teaser rate of 4% and a \$15,000 prepayment penalty for three years. The teaser rate along with minimum payments made the original loan of \$323,010.00 increase to \$332,458.59. Escrow was included and amounts to an additional \$872.11 a month. The property is rented for \$2,500 a month. Each month the lender's statement gave the borrowers four payment options: Option 1) Amortized over 30 years \$3,659.64 plus escrow Option 2 Amortized over 15 years \$4,464.11 Plus escrow Option 3 A minimum payment of 2,504.94 plus escrow (and negative amortization of \$965.00) Option 4 Interest only \$3,469.44 plus escrow Lender: Countrywide Current Interest Rate: 9.375% 4.5% over some rate. (I don't have the base rate information) Payments cannot increase more than 7% (a MONTH). So in effect is a truly floating loan. Program: 30 year jumbo pay-option ARM/PM) Current status: Customer cannot sell unit due to the soft market in South Florida, Any re-financing will have to include the pre-payment penalty and still the payment will be very high in comparison with the rental income. (Plus the maintenance fee has to be made). The customer should have never purchased this unit as an investment, specially using a 95% LTV and this type of mortgage. Had this loan not been available they would have probably never made the purchase. The lender rep went over very quickly the terms and they did not even realize this loan was adjustable until the payment amount doubled on November of 2006. I don't know what the final outcome will be as the firefighter just obtained a second job just to pay for the "investment" property. Prepayment penalties are designed to increase the initial low rate but in effect present a handcuff to the consumer who is forced to pay the higher rate but does not have the cash to re-finance and pay the penalty. As the above two cases show no matter the income level the results will always be disastrous to the consumer and ultimately to the bank and present inappropriate risks to our economy.