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Subject: Reg Z - Truth in Lending

Comments:

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Proposal: Regulation Z - Truth in Lending - Closed-end Mortgages
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Regulation Z may on its surface appear to be beneficial to consumers; however the unforeseen consequences of this legislative action may prove to actually hurt consumers, especially in this time of depressed home values. All across the country, home values remain low. Consumers stuck in adjustable rate mortgages (ARMs) are experiencing interest rate adjustments, resulting in much higher monthly mortgage payments, and in turn an increase in the number of consumers who will default on their mortgages. Refinancing is often the best way to permanently escape the crushing burden of an adjustable interest rate and the corresponding increase in monthly mortgage payments. Today, the most limiting factor in the refinance market is the low values of homes, with many homeowner's already underwater; owing more on their home than it is worth. Others have less than 5% equity. This makes refinancing difficult. For FHA loans we cannot perform a new loan that exceeds exceed 97.75% of the appraised value of the property. This is why yield spread is a valuable tool for mortgage brokers looking to assist homeowner's with little equity. If necessary, the proceeds from yield spread can pay for most or all of the closing costs, reducing or eliminating the amount of closing costs rolled into the new loan. For clients with little equity, this can resuscitate a deal that would've otherwise died after appraisal. One of my company's recent clients in New Mexico, was approved for an FHA rate and term refinance. When her appraisal came in \$30,000 lower than she anticipated, we were forced to raise the rate and use the yield spread to pay for closing costs. If we were unable to do this, the deal would have been impossible, without requiring her to bring over \$15,000 to close. Her new deal saves her about \$250 a month from her previous high rate mortgage. As this example demonstrates, yield spread is a useful tool that often benefits consumers especially in this depressed real estate market.

Sincerely,

Daniel Bodt