From: Leonard C Tekaat

Subject: Reg. Z

Comments:

Date: May 18, 2011

Proposal: Regulation Z; Truth in Lending
Document ID: R-1417
Document Version: 1
Release Date: 04/19/2011
Name: Leonard C Tekaat
Affiliation:
Category of Affiliation:
Address:
City:
State:
Country: UNITED STATES
Zip:
PostalCode:

Comments:
We need a complete change in how we view interest rates as a control for inflation and inflation psychology. Many economists will tell you that the depressed condition of the primary housing market is one of the main reasons the economy has not fully recovered. The unemployment and foreclosure crisis has been put on a back burner because so far no one has presented a good solution for it. I believe if we empower the people with the tool they need, they will bring about their own economic recovery without the government increasing its debt. We created the current financial crisis when the middle class and other people were offered and they accepted mortgage terms that were destined to create economic defaults. The collapse of the primary housing market destroyed an enormous amount of the middle class's disposable income and confidence. This is what had to be repaired before roads and bridges were repaired to increase economic activity. We are in a very critical period of the current economic turmoil. The government's deficit spending programs have not been very successful in improving the economic condition of Main St. This is where the private sector has the power to succeed, where the government has failed by working alone. I believe we need new mortgage terms made available to almost all primary homeowners, not just for people that are having financial trouble. Mortgage terms that will help all of the middle class and other people succeed financially. The middle class is so large, if they succeed financially, the nation's financial condition will improve. The new mortgage terms should be similar to the current 5/1 Adjustable Rate Mortgage, but with the following changes. The starting interest rate should be 3%. The interest rate would increase .25% per year. The interest rate would stop increasing at 5%. The down payment would be 10%. A lower down payment would require mortgage insurance. New purchases and refinances would qualify at 5%, with a 3% starting interest rate, so we reduce the chance of new defaults. To solve the underwater mortgage problem, underwater mortgages should be reduced an additional 30% of the monthly principal and interest payment each month until the value of the home

equals the unpaid balance of the mortgage, or up to 10 years whichever occurs first. (More information on how a monthly decrease in underwater principal balances would benefit home owners and strengthen the financial institutions can be found at my websites) We should start offering these terms to people and families who want to live in and buy a foreclosed home first, to eliminate the foreclosure inventory. We should then make the new mortgage available to all conforming priced homes after the maximum about of the mortgage the government will guarantee is lowered. These terms would only be available to owner occupied single family homes. The Zero Inflation Taxation Policy should be in force first before the new mortgage is offered to the public.

Basically the Zero Policy works like this: As inflation begins to occur, the tax on interest earned on debt investments and savings would decrease, based on the true annual inflation rate. At the same time, the interest tax deduction would decrease based on the true annual inflation rate. In this way the excessive use of credit during the inflation cycle would decrease. The value of money would increase during the inflation cycle, without increasing cost, and the price structure of our economy. Fannie Mae and Freddie Mac have no trouble securitizing and selling the 5/1 ARM. The new mortgage is designed to decrease defaults and the Zero Inflation Taxation Policy is designed to stabilize long term interest rates, to help eliminate interest rate increase risk. Therefore Fannie Mae and Freddie Mac shouldn't have any problem securitizing the new mortgage, and selling the securities. If they do have problems with sales, the Fed should sell their existing agency securities, (they will go up in value after the new mortgage is offered to the public), and purchase the new securities. The Fed should hold the new securities until the interest rate increases on the mortgages to above the 10yr US Treasury Note rate, and then sell them. The new mortgage securities will be more appealing to investors than the 10 year US Treasury Note because the interest rate will be increasing .25% a year were-as the 10 year Treasury note will not have this benefit. The 10 year Treasury Note will also not have the benefit of the Zero Inflation Taxation Policy. What will the new mortgage terms do for the economy? They will improve the housing market, stabilize prices and then prices will slowly rise. They will improve the financial condition of Fannie Mae and Freddie Mac, which will save taxpayers billions of dollars. The new mortgage terms will increase people's disposable income and confidence, which will increase aggregate demand, decreasing unemployment and foreclosures. Less people will be goernment dependent. More taxes will be collected as the economy improves and people go back to work. As we reduce our deficit, the dollar will strengthen. Oil prices will decrease. Transportation fuel prices will come down. Production cost will decrease. The foreclosure inventory will be sold quickly to owner occupied owners. The Great Recession was created by the excessive use of credit. To help prevent the excessive use of credit and increase the saving rate, when equity prices are rising too quickly, we need to enact the Zero Inflation Taxation Policy to help maintain economic balance in our economy. With the Zero Inflation Taxation Policy enacted, long term interest rates will stabilize and not be prone to rising, which will create another recession. Stable interest rates and full employment will improve our nation's standard of living and bring prosperity to our economy. Our economy will become more productive. Less "paper profits" will be created. Our savings will not be used to make inflation psychology driven investments and purchases, which helps create higher prices.

Leonard C. Tekaat is a retired economic analyst and scholar, with over forty years' experience in the world of home financing. He is the Chairman of a special Committee for Economic Reform and a Better Economic Future. For more information google the three words foreclosure crisis solved or Leonard C Tekaat.