

My definition of “**Non-Traditional Mortgage products**” so there is no confusion from which I answer the following questions. Also to note that most of the programs below require strong credit histories for the previous 4-5 years, with no outstanding collections, judgments, etc. and with a decent middle credit score, usually around 640-660 at the low end.

Commonly known as the Alt A industry or Fannie Mae fallout loans.

- a) Interest only mortgages – 1mo, 6mo, 1 through 10 year fixed with 30 year am.
- b) Neg. Am.
- c) Option Arms (which usually offer 4 different payment options)
- d) Short term Fixed rate with Short term Pay Option Arms (exclusive program from one of my investors)
- e) True No doc
- f) NID – no income is disclosed but everything else is and verified.
- g) NIDNE – no income or employment disclosed but assets are.
- h) NIDNENA – same this as True No doc

Loan programs I don't consider to be classified as non-traditional because they've been in the non-prime (sub-prime) marketplace for a number of years.

Commonly know as the B/C industry.

- a) Stated income Stated Asset
- b) Stated income verified asset
- c) 12 – 24 months bank statements same as full doc
- d) 1099 same as full doc
- e) 2 through 5 year Arm's (principle and interest payments)
- f) CPA letter to verify 2 years Self-employment history when going stated income.
- g) Simultaneous 2nd commonly know as 80 20's
- h) 30 15 Balloon note 2nds.

Request for comments

Are there unique characteristics of non-bank mortgage lenders or mortgage brokers that should be considered in developing or applying guidance on non-traditional mortgage loan products?

Yes, of course; too many to list. To mention a few, mortgage brokers typically view their role in mortgage origination as consultative. Most if not all Banks function like this; Take application, pull credit, approve or deny; if denied no explanation is given nor assistance on how to improve the credit to become approvable in the future. Whereas, Broker listen to the needs and then through a consultative role try to offer the best 2-3 products that meet their needs now and in the future. I believe both Banks and Brokers should have access to non-traditional loan products and we should both be required to have the same set of disclosures for the client to sign for the non-traditional loan products.

Would this guidance affect your operation? What impact would it have on your compliance systems and costs?

Yes it would affect my operation. How it would affect and to what level would be the affect is the real question. Like any and all laws, bills, etc. passed over the years some have helped protect the consumer however many have hurt the consumer. From my experience closing non-traditional loan products, it's not the typical blue collar loan program. Nor is it for those that are uneducated or immature in terms of wealth creation strategies. The individuals I see utilizing this product are astute to certain financial information. They are usually the one's requesting more information on the product. They may have seen an ad, or possibly a friend or financial advisor recommend they look into it.

The impact on compliance systems and costs would vary based on the size of one's organization and the commitment level they personally take with this new proposed law.

Are non-traditional mortgage loans a significant portion of the mortgage lending business here in NC? Are these loans concentrated in particular segments of the marketplace here in NC (sub prime borrowers, or urban areas, etc.)?

In my opinion I would have to say no. The product is fairly new to most Brokers.

Yes I would agree that this type of loan product is concentrated in particular segments of the marketplace however it's not as it may appear. For example, most sub-prime borrowers couldn't qualify for a non-traditional mortgage product because their scores are too low and their credit history and credit file is filled with derogatory debts or not enough debts thus creating a weak credit file. Again, the sub-prime borrowers in most cases can't even gain access to what I defined as Non-traditional mortgage loan products," because of their credit files. Which in my opinion is good, because this type of borrower has already proven their not responsible enough to make their payments on time. The segments that are taking advantage of or attracted to this product are not found geographically, nor are they necessary borrowers with the highest credit scores. In my opinion the segments or categories that are utilizing this product the most and best served by it are;

- 1) Experienced real estate investors
- 2) Experienced financial planners who are becoming more involved in real estate investing.
- 3) Experienced mortgage industry professionals who are already experienced or becoming involved in real estate investing.
- 4) Affluent professions of all backgrounds, young and old, who understand specific financial strategies they could incorporate with this type of mortgage tool/vehicle.

There are positives and negatives to all loan products in the marketplace today and no one product fits every human being. It's my belief, that as a whole most consumers that are taking advantage of non-traditional mortgage products understand the gains, losses and potential risk of using this type of mortgage tool/vehicle to accomplish specific financial goals. Educated and financially astute people know there is no such thing as a "Guaranteed Return" or a Sure thing; Potential Gains mean potential losses.

Is the guidance's definition of non-traditional mortgage loans appropriate? Are there other similar loan products that pose similar risks that should be included in this guidance?

No. I feel our time would be better spent by focusing on tweaking the underwriting guidelines thus limiting the number qualified borrowers from gaining access to "non-traditional" loan programs verses spending the time coming up with terms and definitions. For example, underwriters could set their qualifications as;

- a) No first time homebuyers (FTHB)
- b) No FTHB and borrower must have perfect credit for 5 years, which 4 active trades that are 36 months old with a credit score of 720.

The 2 year sub-prime arm poses a risk to borrowers, because honestly most of your sub-prime borrowers have chosen to be sub-prime borrowers based on their attitude towards credit and their work ethic involved in getting things right. This is one of the most misunderstood, scrutinized products in the industry. Most legislators and attorneys are screaming foul to discrimination, and in one or two cases they may be right. However, what they don't understand is that when a borrower applies for a mortgage loan, either to refinance or purchase a home and they have a 540 middle credit score with 4 to 5 years of late payments that can't be explained nor were they the results of medical emergencies or challenges, and then we the mortgage brokers, bankers, lenders are expected to give this borrower a 6.00% 30 year fixed Fannie or Freddie mortgage note! Give me break! Honestly, most brokers, bankers, and lenders go beyond the call duty to help these borrowers out, knowing this is just a short term fix. Why? Because the borrowers have put themselves in their own situation and unless they change their mindset on how they view credit and the responsibility they have to keep their bills paid on time, like every citizen in the United States they will forever be paying higher interest rates on everything. It seems that the criticism and scrutiny coming from the media, attorneys, legislation, consumers, consumer advocates or governmental bodies only focuses on the mortgage industry. What about automobile lenders, finance companies or credit card companies? Don't they also give higher rate notes to those with bad credit?

Suggestions on a few possibilities that may help non-qualified borrowers from gaining access to non-traditional mortgage loan programs

1. Train all North Carolina CE providers on the underwriting basics and ethics of non-traditional mortgage loan programs so they can incorporate it into their yearly classes.
2. Require all financial institutions that originate non-traditional mortgage loans by loan officers with less than 3 years of experience to be monitored for ethical, compliant transactions.
3. Require all financial institutions that originate non-traditional mortgage loans to train their loan officers annually and track it with the use of an internal log.