

**From:** Grady Patton [mailto:gradypatton@triad.rr.com]  
**Sent:** Wednesday, January 17, 2007 12:21 PM  
**To:** comments  
**Subject:** Deputy Comm.doc

January 17, 2007  
Greensboro, NC

Mr. Mark Pearce  
Deputy Commissioner of Banks  
Raleigh, NC

Ref: Response to "non-traditional" mortgage loan products.

Dear Mr. Pearce,

I have originated mortgage loans now for 16 years. The largest percent of my customer base are using the payment rate or interest only products. These products are for the astute borrower that has special needs or desire for a lower payment than the conventional fixed rate products. Many of these customers have a financial plan with these products or a plan to reduce consumer debt. Some are only in the area for a few years and have experienced the fact that the equity gain will far exceed any "negative amortization" (I call this deferred interest) All of my customers are aware of the mechanics of this product and that at any time they can come back and refinance at a very low cost to any other plan they so desire. In the last 10 years I have had no more than 3 refinance, 2 went to 15 year fixed after consumer debt reduction and the other rolled to another payment option product. This individual has invested the difference between the 30 year fixed payment and the 1% payment rate in various mutual funds and has calculated enough growth to pay off his mortgage in 9 years if so desires. I have another customer with elderly ailing spouse, lots of equity in the home but not enough cash flow to cover living expenses. I cashed her out, paid all debts; she then put \$100,000.00 in a secure account with EdJones Investments. The EdJones account pays her mortgage payment and has maintained the balance plus a return. Once her husband has passed she plans the sell the home and move to a retirement home.

I personally have two of these type mortgages and I firmly believe these products are of great value for many situations. Over the last forty years I have had eleven 30 year fixed rate mortgages and yet to payoff any of them. I have heard the life of the 30 year fixed rate product is 5-8 years. Here is where I think the consumers are really getting blasted...these fixed products are extremely front loaded with interest. i.e. At 6%, \$100,000 loan, 30 year AMTZ, monthly payments approximately \$600.00 (rounded). The first year you pay in \$7,200.00, bal owed is \$98,800. You paid \$5,000 to use \$1,200, that's 500% interest. By the end of the fifth year you are paying 450% interest. The fact

is that 6% rate on the fixed 30 is never 6% UNLESS you carry it to full 30 year term. After paying 15 years on a 30 year fixed rate you will owe 80% of the original amount borrowed.

Another plus with the payment rate or interest only products is that you pay interest only on the amount you owe. If you pay \$20,000 to principal this month then next month you only pay interest on the balance. Many customers in sales like this and have accelerated principal much faster than prepaying a fixed product.

To answer the 4 bullet questions I have the following suggestion or comment:

- 1) I had to educate myself on these products. It would be good to possibly require some type of class to educate loan officers. Also, the managing broker should be required to sign off that they have interviewed the customer and the mechanics of this product is totally understood.
- 2) The above guidance is in place at our office. All loan officers have been educated on the pros & cons of these products. There would be no impact on our compliance systems and costs.
- 3) I would say 50% of the loans over \$200,000 are payment rate or interest only products in this area. The particular segment in our marketplace for these products is in the price range of \$200,000 to 1.5 Million. Sub prime borrowers are disqualified at our office due to credit score requirements. Urban areas are generally acceptable with a reduced LTV. (Loan to Value)
- 4) No, the guidance's definition calling these products "non-traditional" is not appropriate. There is nothing non traditional about these loan products. These products have been around for years in the US but were ignored in this area by most in the industry. More than 10 years ago I learned of these products through a financial planner who was at a convention in California. I located an investor and closed the loan. Since that time I have closed hundreds. The only loan products I see that pose consumer risk are the Sub-prime reduced payment, Interest only products. The sub-prime customer is already in trouble and some of these products appear to help but 2-3 years later the situation has worsened and the payment jumps.

I appreciate the opportunity allowing my input with these mortgage products.

Respectfully Submitted  
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