17 Jan 1985

ML² Litigation Generally

1985

Letter concerning "payment cap"

- Response 1/2/85 re: Cap
- newspaper article

4 pgs. (yellow p.i. #3157)

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K Hovnanian Companies

K. HOVNANIAN COMPANIES OF NEW JERSEY,INC.

10 HIGHWAY 35, P.O. BOX 500, RED BANK, NEW JERSEY 07701 □ (201) 747-7800

January 17, 1985

National Committee Against
Discrimination in Housing
733 15th St. N.W.
Washington, D.C. 20005

Attention: Mr. Bruce S. Gelber
General Counsel

RE: Cap on increases in payment
rate - Affordable Housing Plan

Dear Mr. Gelber:

By way of follow-up to our telephone discussion of December 20, 1984 concerning the cap to be placed upon the increases in payment rate prior to being required to utilize an average payment rate for purposes of calculating the sales price, please find enclosed a copy of the January 2, 1985 Memorandum from Robert E. Scott, Jr. and a copy of an article from the December 30, 1984 Star-Ledger. Please note that FNMA has in fact now discontinued the FPARM loan program as anticipated by Mr. Scott.

To recap our discussion, it appeared that the use of a payment cap for determining the applicable interest rate to be use for computing the sales price was an effort to minimize "payment shock" and "risk of default". This goal must be balanced against the need to make not only the initial sale but all subsuquent resales as easy as possible so that owners of these homes would not be subjected to overly cumbersome and burdensome sales procedures. In essence, preserving the marketability of these homes without jeopardizing the goals of the plan.

Our desire is to enable all owners of these homes to utilize mortgage programs which are readily available in the market at the time of resale. We believe that a 7½% per year cap in the increase of payment rate equitability balances the interest and goals of all parties. The owners of these homes are protected against payment shock and default by this cap and the fact that the prices are already only 90% of the maximum sales prices which could be charged under the income criteria further insures the affordability of these homes. The lending industry, by virtue of its loan qualification procedures and criteria, already takes numerous precautions to protect itself against the risk of default caused by payment shock resulting from increases in payment rates.

Given the cumulative affect of (1) the 7½% payment cap; (2) sales prices are already only 90% of the maximum; and (3) the lending industry standard procedures to protect itself against default, we believe that the 7½% payment cap achieves all the goals desired. The 5% cap is unnecessary to accomplish these goals when given the realities of the lending qualification procedures. In addition, the 7½% cap enables owner-sellers to offer readily available mortgage programs to prospective buyers.

We would, therefore, request the approval to use programs using the 7½% payment cap without having to average the rate for purposes of calculating the sales prices of these units.

Thank you for your cooperation and assistance in this matter.

Very truly yours,

K. HOVNANIAN COMPANIES OF NEW JERSEY, INC.

Donald R. Daines
Associate Legal Counsel

DRD:jac
Enclosures
cc: Philip Paley, Esq.
Chris Nelson, Esq.
Richard Scalia, Esq.
Peter S. Reinhart, Esq., Vice President, Chief Legal Counsel
Robert E. Scott, Jr., r.e. Scott mortgage company
James P. Barry, Vice President Sales/Marketing, K. Hovnanian Companies of NJ, Inc
Allan Mallach

JAN

MEMO TO:	Donald Daines, Esq.
FROM:	Robert E. Scott, Jr.
DATE:	January 2, 1985
RE:	Mt. Laurel Units

In response to your memo of December 20th, I believe that the Urban League position limiting payment rate increases to 5% per year is unreasonable and unrealistic. If practical considerations resign you to accepting the 5% per year payment cap, you should be prepared to base your prices on the 3rd year payment rate to the buyer.

There is some discussion at FNMA about the possibility of discontinuing or modifying the FPARM loan product which would remove our lowest rate stable payment program. None of our existing graduated payment loan programs, be they fixed rate or adjustable rate, offer payment increase limits as low as 5% per year and none of our adjustable rate programs offer caps equivalent to only 5%. The market place and the mortgage insurance industry have largely embraced a 2% per year interest rate cap as the norm and it is only the most vigorous consumer protection advocates who are attempting to enforce a 1% per year adjustment cap or approximately 7½% payment cap (FHA, FHLMC.)

Robert E. Scott, Jr.
President

RES/rmc

Sunday Star-Ledger

December 30, 1984

Fannie Mae introduces standards on ARMs

Fannie Mae announced that it has standardized the interest rate-capped, adjustable rate mortgages that it purchases from lenders.

The corporation's three new rate-capped ARMs are one-year adjustable rate mortgages, all with lifetime interest rate caps of five percent. Two of the standard ARMs will have annual interest rate caps of one and two percent, respectively. The third will have an annual payment cap of seven and a half percent.

"Our action to standardize procedures for purchasing ARMs with interest rate caps is an important step in the development of adjustable rate mortgages," said Micheal A. Smilow, Fannie Mae's executive vice president of operations. "It will make it easier for lenders to provide adjustable rate home loans with broader consumer protection features.

"Most home buyers now insist upon ARMs with limits on how high the mortgage rate can go," Smilow said. "By adding interest rate-capped, one-year ARMs to our standard purchases, lenders can sell them more easily to the secondary mortgage market."

Earlier this year, Fannie Mae announced its intention to develop standard interest rate-capped ARMs. During the past few months, the corporation has researched and tested loan features for this type of mortgage that best suit the needs of the marketplace.

The interest rate on ARMs recently has averaged approximately two percentage points below the fixed rate. This has made ARMs, especially those that adjust every 12 months, attractive to home buyers who might otherwise be priced out of the market.

The index on all Fannie Mae's interest rate-capped plans is the weekly average yield on U.S. Treasury securities. Interest rates and payments are adjusted every 12 months.

Fannie Mae's new standard ARMS are assumable, an advantage for reselling homes.

Lenders also will be able to offer home buyers the ability to convert the rate-capped ARMs later into the fixed-rate mortgages in the third, fourth or fifth year.

Ann Siever's column will not appear this week. Her column will return next week.