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Recession, Recession, Recession!

The House passes a mortgage regulation bill. What does it mean to the commercial sector?

The newspapers are providing us with a daily dose of bad news on the housing front. We read about foreclosures, lender bankruptcies, and the usual pronouncements from our government leaders that they will bring an end to the problems by more regulation.

This column is not nearly long enough to explore all of the ramifications of this crisis. But I for one am very, very nervous about the bill that has just passed the House of Representatives regulating residential lending.

Why should I, a commercial lender, be concerned about these regulations? I believe that certain provisions within this bill (H.R. 3915) are going to cause capital to pull out of the home loan business even more than it already has, and what follows will be a credit crunch that will make the current environment look benign.

A prolonged housing crunch will send us tumbling toward a deep recession which will severely impact commercial properties as businesses fail and investors, even in the commercial arena, stop lending.

Sections of H.R. 3915

The final House bill can found at <http://www.govtrack.us/congress/billtext.xpd?bill=h110-3915>

The following are just two of the “scary” provisions of this bill.

ABILITY TO REPAY - No creditor may make a residential mortgage loan unless the creditor makes a reasonable and good faith determination based on verified and documented information that, at the time the loan is consummated, the consumer has a reasonable ability to repay the loan, according to its terms, and all applicable taxes, insurance, and assessments.

BASIS FOR DETERMINATION- A determination under this subsection of a consumer's ability to repay a residential mortgage loan shall be based on consideration of the consumer's credit history, current income, expected income the consumer is reasonably assured of receiving, current obligations, debt-to-income ratio, employment status, and other financial resources other than the

This bill, if passed in its current form by the Senate and signed by the President (who has threatened a veto,) will effectively end sub-prime lending. The very people that the bill is designed to protect will find out that no one will lend to the marginal borrower.

If there is no money for housing, how many related industries will be decimated? Look at the devastation to collateral industries already: escrows; the construction trades,; and the myriad of businesses that rely on new home sales that have already been adversely affected.

With further restrictions on the availability of funds, a recession will follow and commercial real estate lending will be hurt in the process. I am very, very nervous about this knee jerk reaction by congress. You don't cure a leg wound by chopping off both legs at the knee.

Contact your Congressional Representatives and educate them on the impact of this bill.

consumer's equity in the dwelling or real property that secures repayment of the loan.

Will a lender ever win a suit years later that they made a "reasonable good faith determination" that the borrower could pay this loan forever?

Final comment: What ever happened to the borrower taking responsibility for getting the deal that most suits him? Why can't the home owner be allowed to determine how much risk he is willing to accept? Why has that burden now been shifted to the lender? Does this make any sense? No other industry requires the lender to protect the borrower. How about some personal responsibility here folks!

-Joe Forman

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