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Subject: Reg Z - Truth in Lending

Comments:

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Proposal: Regulation Z - Truth in Lending - Closed-end Mortgages
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I applaud you for your efforts to improve upon consumers protections and disclosures. However, there is a provision in the proposed R-1366 that concerns me greatly and requires clarification. R-1366 proposes to: "Prohibit payments to a mortgage broker or a loan officer that are based on the loan''s interest rate or other terms; and prohibit a mortgage broker or loan officer from "steering" consumers to transactions that are not in their interest in order to increase the mortgage broker''s or loan officer''s compensation." Apparently the authors of this proposal do not understand how the mortgage industry operates. Many, many years ago large, national mortgage banks realized, for the most part, that they did not want to have expensive retail offices through out the country. The overhead was just too great to warrant them trying to have a physical presence in so many cities. Therefore, the mortgage broker industry was born. The mortgage broker could operate a retail office much more efficient and at lower costs than the large mortgage bank could. Therefore, the mortgage banks were willing to pay the mortgage brokers for sending business (loans) to them. This is usually done via a Yield Spread Premium (YSP). In doing so, the mortgage broker is able to cover ''some'' of their operational costs with this YSP. The end result is that the mortgage broker is usually able to offer the consumer a lower rate and closing costs package than most mortgage banks. So, this works out to the benefit of the consumer, the mortgage bank and the mortgage broker. It also provides healthy competition throughout the community and provides jobs for the mortgage broker and other vendor service businesses (appraisers, title companies, insurance, etc.), most of which are small businesses as well. Without the YSP, the mortgage broker could not operate. This industry would fail and thousands upon thousands would lose their jobs. Most of the mortgage broker companies are small businesses who contribute to their local communities in the form of taxes, payment of services, donations to local civic and charitable organizations and causes. And, just as importantly, the consumer would lose, as they would then be forced to do mortgage business with the remaining mortgage banks, which would result in higher costs to them and long delays in service times. This always happens when there is less competition. Apparently some people have the misconception that mortgage brokers make an unwarranted large sum of compensation on the loans they close. As an owner of one of these companies, I can assure you that there is very little margin on average in this business and with the operational costs where they are there is very little profit made. On some loans, we actually lose money once the true costs are factored in, even with a YSP! It is also important to understand that the industry is already regulated by the GSE agencies, HUD and wholesale/investor policies with caps on the total compensation allowed on any one loan. To further regulate this is directly opposed to capitalistic principles as well resulting in harm to the consumer and being fatal to this industry. In addition, the loan programs and industry players that were so harmful to the mortgage world, the consumer and our economy, have disappeared over the last 24 months or so. The remaining programs, industry professionals and current regulations sufficiently protect the consumer. There is no avenue or incentive for a loan officer to "steer" someone to a product that is harmful to them for financial gain. On a final thought it would not be fair trade for the YSP to be eliminated and to not at the same time eliminate Service Release Premiums (SRP) for mortgage banks, which is the same thing as YSP for mortgage brokers. Please do not let this provision of this rule stand as it is harmful to everyone involved, especially the consumer. Thank you for your consideration.