From: "Joe Cannarozzi @ Classic Home Mortgage" <classichomemortgage@charter.net> on 03/27/2008 12:10:11 PM

Subject: Regulation Z

Good morning. My name is Joseph Cannarozzi. I am a licensed mortgage broker located in Simpsonville, SC. First and foremost, I applaud the Federal Reserve Board's proposed amendments to Regulation Z as it pertains to the overall objective of consumer protection. Educating consumers is always the best way to ensure they have all the tools in place to find the right mortgage product to meet their needs. This is an ideal that has made mortgage brokers a valuable resource for consumers.

However, with all due respect, I oppose the proposal to restrict compensation for mortgage brokers, as I would similarly oppose limiting compensation for originators working at banks or a builder selling a home, for that matter. An open market fosters competition. There is no more competitive industry than mortgage origination. This alone applies natural limits on compensation, which should be the case, compensation limited by the open market forces of competition. Originators that offer the best 'value', a combination of service, product and price, attract a steady stream of clients. Unethical, price-gauging originators, whether they work at a bank or for a mortgage broker, lose clients. Healthy competition is best guard against aggressive pricing. Imposed limitations on mortgage broker compensation, left unchecked, will eventually eliminate mortgage brokers, reducing competition and inflating prices for the consumers we aim to protect.

Mortgage brokers have a unique role in any real estate transaction in that we act as a liaison between borrowers and lenders, represent neither and protect both. This gives mortgage brokers a free hand in tapping into that open market which fosters competition between lenders, allowing us to find for our borrowers the best product at the best price. This added value is the reason why mortgage brokers exist. If not for that, why? Borrowers seek out mortgage brokers still today, even with all the negative publicity directed at us. Why? Because consumers realize that honest mortgage brokers provide a tangible, valuable service, a service for which they are willing to pay compensation, whether it be through origination points or through the interest rate (ysp's) the client has accepted, accepted because they deem the combination of service, product and price to be the best they could find in an open market.

Mortgage brokers compete daily with direct lenders who themselves act as intermediaries in as much as they package and sell loans and earn compensation for such, much like mortgage brokers. Yet, lenders and there originators are not held to the same level of disclosure and scrutiny as it pertains to additional compensation earned on the origination and sale of a loan. Disclosure and education is always a good thing. However, too much of either has the potential to be confusing and therefore counterproductive. Worse yet, is when disclosure is not level across all segments of our industry. In addition to creating even more confusion, it actually creates an unfair advantage to those required to disclose less. Over-disclosure, in my opinion, also has the unintended consequence of creating a certain level of skepticism. If I have a client sign three of four different documents describing how I earn my compensation, it only begs more questions, questions never posed to a lender for a similar product and similar compensation earned. Compensation that is secondary once a client is satisfied they are getting the best service, product and price, in other words, value for their money.

Mortgage broker compensation earned specifically from yield spread premiums allow mortgage brokers to structure a mortgage transaction in the most beneficial form for the client, trading rate for fees, not unlike a bank would do in charging a higher rate to offset a lower origination fee, increasing income in one area to forfeit income in another area. Yield spread premium alone is responsible for the piecing together of many mortgage transactions allowing buyers with good credit, but limited assets to still realize the dream of home ownership. However, when a mortgage broker uses this tool, he must disclose it on several documents. Lenders and their originators are not required to do the same, creating an unfair advantage, especially when considering that the interest charge on my 6.00% rate is the same interest charge the client will pay on a bank/lenders 6.00% rate. This example is magnified when considering that more often than not, a mortgage broker competing with a bank will typically beat the bank rate while still earning yield spread premium and will still have to over-disclose the fact that he is earning additional compensation. Inevitably, lenders and their originators will use mortgage broker over-disclosure of yield spread premium to create an atmosphere of price gauging and steer clients away from brokers and toward lenders with potentially higher rates. These higher rates earned by the lenders, over the term of loan, outpace any compensation received by a mortgage broker in the way of yield spread premium.

Requiring mortgage brokers to disclose fees even before an application is taken is almost impossible due to a lack of the tangible numbers (i.e. loan amount, transaction type, etc.) and facts that determine what fees will be charged. Those tangible numbers, more often than not, are fluid and will change throughout the process affecting the fees that are charged, as well.

I truly respect the ideals of the Federal Reserve Board to protect consumers. I believe disclosure and education are and always should be key components of a consumer protection program. I encourage the Board to implement regulations that create a level playing field across all segments of the mortgage origination industry. Anything less, creates confusion and unfair competition that will ultimately limit consumer choices and drive up prices.

<u>RECOMMENDATIONS:</u>

I firmly believe the Truth-In-Lending Disclosure is the best tool available to improve consumer protections and education while leveling the playing field between mortgage brokers and lenders. The form, if used as intended, expresses the best comparison of overall value between mortgage programs in the way of an APR which of course factors loan costs (including ALL compensation) into the interest rate being offered. Consumers, properly educated on the intent and meaning of the information listed on a TIL, can easily pick the best value. I believe a properly formatted, consumer-friendly TIL with an attached explanation of terms and sample numbers to back up the actual TIL specific to the mortgage transaction will serve the consumer infinitely better than an expanded Good Faith Estimate or all the Yield Spread Premium Disclosures combined.

In fact, the case could be made that increasing the amount and complexity of disclosures, confuses consumers and sways or at least diffuses their focus on the most important aspect of the transaction, the cost, not the compensation. By eliminating, limiting or consolidating certain disclosures and expanding and reemphasizing the TIL disclosure, consumer focus will be directed to the primary issue, the cost to the consumer expressed in rate and fees. This disclosure alone defines a mortgage broker's compensation to the client whether it be from yield spread premium reflected in the rate or origination points reflected in the fees, both contribute to the APR. The APR is where the argument begins and ends when comparing mortgage products and terms. All other numbers are irrelevant, not because they are not important or they are to be hidden, but quite the opposite, because they are already factored into the APR, the most important and relevant number. A number that alone, regardless of any amount of compensation received from any source, levels the playing field because it accounts for all compensation received.

I thank the Board of Governors of the Federal Reserve for considering my comments.

Respectfully,
Joseph W. Cannarozzi, President

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