From: john shellington <jshellington@msn.com> on 03/31/2008 08:25:04 PM

Subject: Regulation Z

To whom it may concern,

I would like to voice my comments on the Federal Reserve's Proposed Changes to Regulation Z. It is my understanding that the proposed change would include the following rule. " A mortgage broker would be required, but not other mortgage originators, to disclose the specific dollar amount which the broker would earn from the transaction, including the yield spread premium. This disclosure would have to be made before the consumer paid any fee to any person, and before submitting the application."

In response and comment I would like to point out the following:
When first contact is made with a potential borrower, their credit history and scores are not know which directly affect the mortgage products best suited for them and directly affect the compensation of the mortgage broker. The PMI industry, FHA, FNMA, and FHLMC have all introduced specific changes to risk analysis concerning credit scores and available corresponding rates and pricing. How can a mortgage broker possibly know all of the pricing criteria in advance without an application. If additional credit reports are needed during the processing of the loan do to incorrect or altered data and a new report must be pulled, the new findings could significantly alter the program availability to the borrower through no fault of the mortgage broker.

1. During the course of an application, significant events may call for a change in a mortgage product selection quoted by the mortgage broker and affecting their compensation. The applicants income, assets,credit scores, liabilities, and appraisal inadequacies may change even after an application is made with the mortgage broker. This could cause the mortgage broker to switch loan products as the only alternative to successfully approving and closing the borrower's loan request.
2. A mortgage broker canvases the secondary market for the pricing and programs available for the borrower. In the normal course of business the mortgage broker once a product selection is made, contacts a participant lender in the secondary market to hold or lock a program and rate for a given loan transaction. The prinicipal lenders in the secondary market will refuse to commit to rate and terms for the broker and their client if there is a high possibility of the loan not closing. I would offer to you that the secondary market will not accept the mortgage broker request for a lock on rate and terms on a loan application that has not been taken. Offering to accept a lock request from a mortgage broker under these circumstances exposes to the secondary mortgage market to specific expense risks for covering the broker and their clients on a lock requests that will possibly have higher bust out rates.
3. If compensation must be disclosed before an application is taken and processed by a mortgage broker, why not expose all mortgage originators to this criteria? I was a mortgage banker for 35 years before becoming a mortgage broker. There is often no incentive for the mortgage banker to inform the potential borrower about a loan package that the mortgage banker knows is superior to their companies products and pricing. Mortgage brokers perform a valuable competitive service for the consumer in searching out the best rates and programs form a broad spectrum of companies in the secondary market. This creates competition among principals in the secondary market to attract mortgage broker production. Without competition, costs will ultimately rise for the consumer searching for the best home loan package.
4. I challenge anyone within government agencies to clearly define the difference between YSP (Yield Spread Premiums) for mortgage brokers and SRP(Servicing Release Premiums) for the mortgage banker. Most loans originated by mortgage bankers are sold servicing release to another mortgage banker and they are paid a SRP. The broker sells their production to a mortgage banker and is paid a YSP. What is the difference? SRPs and YSPs amount are both based upon the rate and terms of the mortgage being sold. The only difference currently is that

a mortgage broker must disclose the YSP on the consumer Good Faith Estimate and the Mortgage Banker is not required to disclose the SRP on the Good Faith. In pursuit of disclosure why not make all mortgage originators disclose both SRP and YSP. The argument from some of the largest mortgage bankers will be that they don't sell their servicing. That simply is not true so ask them to open their books. If they say they're unable to calulate a SRP for their loan origination why not have them disclose what SRP they are paying to the smaller mortgage bankers selling their servicing to them for the same rate and terms?

I don't see how it is possible to impose this kind of regulation upon one segment of an industry and not on the other and preserve the price competition that the consumer deserves. Why not concentrate on education, licensing of all mortgage originators and disclosure of all costs but only after those costs can be adequately determined by the mortgage lending industry and more specifically the mortgage broker? What is wrong with the idea of taking exisiting RESPa and Truth In Lending regulations and enforcing them. Wiping out the mortgage broker portion of the home lending industry will not cure the problems within the mortgage industry and consumer costs will rise.

Thank you

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