From: "Bob Walker" <bob@carolina-state.com> on 04/02/2008 12:00:06 PM

Subject: Regulation Z

April 1, 2008

Re: Proposed Rule amending regulation Z (73 Fed. Reg. 1,672 January 9, 2008) Docket No. R-1305

My name is Robert G. Walker and I own a small mortgage company on the Outer Banks of North Carolina, Carolina State Mortgage Corporation. I started this business 13 years ago. Over the years I have seen just about everything the US economy can dish out and it has always prevailed and revived, I assume by the spirit of competition and our free enterprise system. I have weathered a 20% prime rate, gas lines and the real estate glut of the early 90's. I was a banker back in the 1970's and yes; I weathered the initiation of RESPA.

The Federal Reserve is proposing new rules to regulate the way in which the residential mortgage market operates. I sincerely appreciate the measures that have been contemplated and I recognize the goodness of intent on the part of the Federal Reserve as well as the difficulty of the task you are facing. There are certain areas that will have what appears to be an intentional adverse impact on the ability of my company to compete on a basis that is fair and equal to the basis of those that we compete with for the benefit of the consumer and specifically the homeowner. In particular the Federal Reserve has proposed that mortgage brokers must provide a fee agreement prior to application that states all sources of income including yield spread premium and that once stated this amount cannot change at any point in the process. This requirement does not recognize that in many cases when an application begins, the originator does not know what program the borrower will ultimately be in. Accordingly, pricing in a program that will not work creates a problem when rigid rules prohibit any change to the pricing and rate. In addition, it would prohibit allowing a borrower to float the rate during the process since we would have to guarantee the cost before application. In some cases a borrower has not selected a property when the application process begins so the timing of the rate-lock is undefined.

When I read this proposal it seems apparent that there is a gross misunderstanding of what companies like mine do and what is required to complete a loan from initial inquiry to post closing. We are not individuals that work out of our home with no overhead and in fact we must maintain a staff, facilities, benefit packages, bonding, licenses, insurance, facility, etc. We process the entire package, and often they are extensive, so that the underwriter can have everything required to either approve or deny the loan with little effort. Our company targets 1.5% gross income on a loan. That is not excessive and it requires volume to make a viable operation at that limited gross income. Our customers shop us up and down the street. We often receive the entire amount from yield premium and sometimes it is a combination of origination fee and yield premium. Either way we are providing a valuable service with significant costs to

provide and are entitled to be compensated. Our compensation from the lender, and the wholesale system itself allows the lender to cover a large market without the overhead of office, staff, advertising, etc. We are their sales arm and without us the cost of a mortgage would be significantly higher. It is no secret that yield premium is also earned by banks and it is also no secret that banks function much the same as we do, delivering their closed loans immediately to a secondary market conduit. They rarely shelf a loan and if they do it is generally not a market rate or salable loan. When we are required to disclose income from yield premium and the banks are not, it creates the impression in the customers mind that we are being paid something that we should not be getting and something the banks are not getting. We all know that is false. This will happen even if our rate is lower and the APR is lower. We compete with banks head to head and we prevail more often than not when being shopped. Speaking for myself I have no objection to disclosing this income if it exists **providing all originators, whether bank or broker disclose on a fair and equal basis.** Otherwise you are not helping the consumer, you are clouding their vision and in time they will lose their right of choice. In addition you will set up a road- block for fair and healthy competition.

The representation of APR and the disclosures on the Good Faith Estimate have covered the cost and fee disclosure very clearly. The current reaction to subprime indiscretion does not accept that it is a segment issue, not a sweeping industry problem. That segment has been created and nurtured by large banks and investment banks, not Mortgage Brokers.

The next area of concern I have is the proposal that originators are responsible for determining that a borrower will have the ability to repay for at least 7 years. This is a requirement that can only be done on the basis of today's data. An originator has no control over the borrower's health, spending habits, job continuation, marital situation, etc beyond the closing. I urge you to have another look at that and perhaps limit it to only making certain a borrower still qualifies at a fully indexed rate if a loan is a delayed ARM based on current income and credit criteria.

Finally, the Federal Reserve is proposing lower triggers for high cost loans. Here in North Carolina this is law now and the recent Agency pricing adjustments by themselves are jeopardizing the ability of certain A-paper borrowers to get a loan. A borrower with a 638 credit score and no serious derogatory issues will be assessed 2.5 points due to their score. There may also be other adjustments depending on the loan particulars. As I am sure you know that can raise the interest rate by .75% to 1% or more, a fairly brutal increase. On a loan of $417,000 this will raise the monthly payment by more than $200 per month. The alternative is for the borrower to pay the points in excess of $10,000.00. The climate is drastically different than it was last year or any other time in recent memory. If in fact you feel compelled to lower your trigger please consider the benchmark to be the 30 yr fixed rate mortgage rate with a reasonable margin to leave room for the new agency pricing models.

I want you to know that I support the efforts for reform and respect all that you are trying to do. I believe you have an obligation to keep the requirements fair and equal to all. We all pay rent in this economy, we all have financial risk and ethical standards to abide by and with that in mind we should all be judged by the same laws. Our nation is faced with a housing market that has nearly taken us into recession, maybe it has. The object of all contemplated policy adjustments

should be to provide fair and safe financial alternatives for the American people that will enable all to own a home. If you accomplish this on a basis that is fair to all the housing market will correct itself as it always has through the spirit of competition and our free enterprise system mentioned in the beginning if this text.

Sincerely,

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