From: sj.hob@comcast.net (Susan Johnson) on 04/02/2008 02:55:03 PM

Subject: Regulation Z

My name is Susan Johnson, Broker/Owner of House of Blessing Mortgage, LLC in Albuquerque, NM.

I would first like to support the FRB's goal of consumer protection with the proposed amendments to Regulation Z. However, I do not believe that goal will be achieved by the current language to restrict compensation for mortgage brokers

Mortgage Brokers provide a service to those borrowers who either do not qualify for the standard bank loan or do not have the time or ability to find competitive pricing for the loan that best serves their needs. The mortgage broker charges a fee to find the best loan for the consumer without having to run credit information more than one time. As you are aware, each time credit is pulled for an individual, there is a negative impact on the credit score. The mortgage broker reduces that adverse impact by using the same credit report to obtain pricing for the multiple lending options.

"Options" is a keyword in the previous paragraph as it gets to the heart of the difference between general banks and a mortgage broker. A bank can only offer the options they have at their lending institution while the broker reviews programs from a portfolio of many lenders. These lenders may very well include the individual banks that the borrower may go to (if they had the time) for alternative/competitive pricing but the broker has only utilized one credit bureau while each financial institution will insist on pulling their own credit file.

Because there are many options for a borrower, it is virtually impossible to 'price' a loan until all of the information is made available and reviewed in underwriting. A review may find that a particular program is or is not available and the dynamics of the loan change. For this reason, it is impossible to price the loan with costs to be born 'upfront' in origination fees or to be obtained 'in the back' in the form of yield spread premiums. Basically, the broker is going to receive the same percentage regardless of whether those funds will be paid in origination fee or yield spread.

In the overall scheme, brokers receive one of the smaller percentages of a purchase transaction. The real estate broker receives 6%, possibly shared between 2 brokers but will remain 6% regardless of the ease or difficulty of the transaction or who negotiates to pay the fee. But mortgage brokers are deemed the bad guys when they charge a straight 2% to finance the transaction. The 'how' the fee is paid should not be under the microscope. Yield Spread Premium ("YSP") can actually reduce the overall cost of a loan that is expected to pay off sometime in the first four (4) years. Therefore, YSP is actually a method of saving the consumer a significant amount of money by accepting the higher interest rate for a shorter period of time and funding the fees to finance (broker fee) through YSP instead of paying it all upfront in origination fees.

By the very nature of their business, brokers represent more than one lender. While each lender may have similar guidelines, there are a variety of differences between each one. It is the business of the broker to match each borrower to the best scenario possible. Because of this truth about the broker business, the average broker typically does not represent any one lender.

Therefore, the broker is actually MORE independent in the mortgage transaction than is a loan officer from a direct lending source.

Mortgage brokers compete daily against the direct lenders despite the fact that these same direct lenders are packaging the resulting loans and selling them in the same investment markets as are the lenders used by brokers. The borrower will make no distinction between the broker and the direct lender until they read the fee sheet and compare the monthly payments. All mortgage originators should be held to the same standards of accountability, education and licensing.

With a broker, the borrowing needs of the borrower evolve. The transaction can take on a whole different complexity or simplicity. As information is obtained to underwrite the transaction, additional risks may arise that require the loan to be repriced regarding YSP, interest rate and origination. The very loan amount may increase or decrease as well as the nature of the loan changing from a simple refinance to a debt consolidation loan. Because of these features, it is impossible to establish a precise dollar estimate of fees that will be charged. In the interest of the borrower and maintaining the broker’s ability to present optional borrowing programs available to the borrower, the broker should not be held to a fixed fee quoted on minimal information.

In summary, restricting brokers while not restricting other mortgage originators will not protect the consumer. The reverse is actually true as there would be less competition for the direct lenders and fewer choices for the consumer. I would hope that the Federal Reserve Board will consider alternatives to the proposed regulation which would protect consumers in their dealings with all mortgage originators, and encourage competition on price and service

Thank you for considering my comments.

Susan Johnson
HOB Mortgage, LLC
Albuquerque, NM
505.294.5306