

From: "Tom Wilson" <optima@cebridge.net> on 04/01/2008 08:45:05 PM

Subject: Regulation Z

Gentleman:

I fully support the consumer protection goals of the FRB (Federal Reserve Board) in your proposed amendments to Regulation Z, but respectfully oppose the proposal to restrict compensation for mortgage brokers.

Your current proposal requiring brokers to disclose their compensation before taking a loan application is neither practical nor realistic in the "real world" of mortgage lending. It is virtually impossible to give an accurate estimate because the details of the transaction, borrower's financial status, credit standing, type of loan product, loan size, and LTV (Loan-To-Value) is unknown at this early stage of the origination process. **All of these factors are critical in determining any loan originators compensation, and no accurate estimate can be given without having this information.**

Residential mortgage lending is a very competitive business and the distinctions between brokers and lenders have been "muddled" over recent years as lenders typically package and resell the loans they originate. Requiring only brokers to disclose their compensation would put them at a severe disadvantage against other lenders because as past studies have proved, it will confuse consumers, cause them to choose more expensive loans, and impede competition which will ultimately hurt them. **Additionally, because mortgage banks and correspondent lenders don't have to disclose SRP (Service-Release-Premium), requiring brokers to separately disclose their total compensation will give the appearance to consumers that broker's have higher closing costs than these originators.**

Mortgage brokers "add value" to a real estate transaction by advising borrowers of the different loan products and financing options that are available in the marketplace. Also, because we have numerous sponsoring lenders, **we can offer more competitive rates and closing costs on all loan programs** than a single bank; that's why brokers originate 60% of the residential mortgages. We are independent contractors, and neither represents the borrower or lender **AND fully discloses this fact to the borrower in writing at the time of loan application.**

When are the FED, HUD, and consumer groups going to fully acknowledge the fact that all originators receive more compensation based on the interest rate they charge? Mortgage Banks and correspondents price their loans so that they make a minimum gross margin on each loan before they are actually sold on the secondary market. It makes no difference to a consumer whether a lender earns extra income

on the secondary market or the wholesale lender pays it to a broker at closing. **What's important TO THE BORROWER is that the interest rate on the HUD-1 Settlement statement matches, and the closing costs approximate, the GFE.**

YSP (Yield-Spread-Premium) and SRP (Service-Release-Premium) is an integral part of structuring the mortgage financing for consumers because many borrowers need and want to reduce their closing costs. For example, it's usually to the borrower's advantage to pay "no points" on a loan by paying  $\frac{3}{8}\%$  higher interest rate; this saves a borrower \$3,000 in closing costs on a \$300,000 loan. Additionally, instead paying points associated with FNMA's and FHMLC's recent LLPA's (Loan Level Price Adjustments) for credit scores, most borrowers will choose a higher rate in lieu of paying points. For someone with a 639 credit score, there is a 2.50% LLPA which is \$7,500 in points for a \$300,000 loan!! Many borrowers don't have these additional funds, and lenders need to utilize YSP and SRP to pay these points for the borrower by charging them a higher rate.

Any changes to Regulation Z **need to apply to all originators**; mortgage bankers, correspondents, and brokers. Consumer protections should be improved through RESPA reform and implemented at the "transaction level" utilizing the GFE (Good Faith Estimate) and TIL (Truth-in-Lending) **for all lenders**. Under pre-defined situations where the final loan approval differs significantly from the initial GFE, all lenders should be able to reissue a new GFE within a specific time period prior to closing.

*Sincerely,*



**Tom Wilson**  
President, Mortgage Broker, CPA

*My Financial Advice and Service Make the Difference!*

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