From: "Andrew Conniff" <andrew@theconniffteam.com> on 04/04/2008 05:20:04 PM

Subject: Regulation Z

Dear Federal Reserve Board,

I agree with many of the proposed actions included in Docket No. R1305, and I believe it is certainly time that portions of this Docket be enacted.

I do however have a comment about the disclosure of YSP (yield spread premium) VS. SRP (Service release Premium)

Since both are seemingly identical some people have suggested (to this board) that all YSP & SRP be disclosed to the borrower, in addition to the fees charged on the "front" of the loan (and thusly included in the APR)
I propose that this is the same as requiring banks to disclose to consumers that they are lending out their savings at 6% and paying them 1.85% return.

In addition to this I suggest that this disclosure will benefit small companies with low overhead who can afford to charge less; lowering service and quality of advice at all types of locations.

For example:

A Bank, a Correspondent Lender and Broker, all have businesses in the same town.

The Bank can do your mortgage on par with the costs plus a moderate fee (or as most do, a margin in the SRP hidden from their employees.) PLUS they have an opportunity to earn money off your deposits over time (some will even give you a discount for direct deposited payments on your mortgage from their institution.) In this instance the Bank makes additional money from additional services in connection with your loan, while employing a license exempt individual with little or no training.

A Correspondent lender acts in many respects like a bank in that you do not see the SRP allowing the Branch or Company to hold a small margin that is often not disclosed to the loan officers, and in some cases allow brokering to wholesale lenders as well. The main advantage to using the correspondent lines are that you do not need to disclose the SRP to the borrower.

In both of these cases the margin is usually used to offset operating costs of the company or branch. Both of these also have reached a certain criteria in terms of solvency. They have enough liquid assets to allow them to lend money in their own name and deliver the mortgage to investor(s) and collect any SRP available.

The Broker has to disclose all YSP to the borrower but usually has the lowest "Par" rate. The same lenders who pay the YSP to correspondent lenders pay the same here as YSP. The only difference is the Broker has either chosen not become a correspondent lender, or has failed to achieve sufficient assets to become correspondent lender.

My recommendation then would be:
* to limit the total % earned on a loan to 5% of profit or 7.99% of the loan as long as 2.99% is used to pay 3rd party or lender closing costs.
* Eliminate disclosure of YSP and to continue to not disclose SRP, instead create loan specific disclosures that show margin ranges and Pre payment penalty ranges and examples of how they may increase either the profit for the lender or increase/decrease the cost to the consumer.

On Many other points I agree with CMPS Institute.

In closing, the status quo on YSP and SRP seems the prudent choice. I do not think there is support in eliminating the YSP disclosure- but it all comes out in the wash if we add a total cost disclosure.

Example:
Lender A
Loan Amount: $200,000 Fixed Term (Mos) __360 __ Adjustable Term (Mos.)___0___
Interest Rate: 6% Principle & Interest($) __1,199.10___ Total Costs Associated with loan($) _9,400_

--OR--

Interest Only Payment($)_____N/A______
Interest Only (Mos)____0_____ then Principal & interest for (Mos)__0__ at (P&I)$____N/A_________

Lender B
Loan Amount: $200,000 Fixed Term (Mos) __360 __ Adjustable Term (Mos.)___0___
Interest Rate: 6.5 Principle & Interest($) __N/A___ Total Costs Associated with loan($) _2,400_

--OR--

Interest Only Payment($)_1,083.33___
Interest Only (Mos)____120_____ then Principal & interest for (Mos)__240__ at (P&I)$__1,491___

This allows the borrower to choose. Lender B or Option B (if both are presented by one lender) will be the most affordable for anyone who is planning on refinancing or moving in less than ten years.
The Payment difference for the first ten years is... (Lender A vs. Lender B) is $115.77 per month. = $13,892.4
The Fee Difference is $7,000
For a total Savings of $20,892.4 for the first ten years divided by the future difference of $291.90 (from the 240 X 1491 less 1199.1) means that Lender A becomes cheaper for the borrower after an additional 5.96 years.

Lets say Lender B or option B makes the lender more money. It is also cheaper unless they stay in the mortgage more than 15 years (highly unlikely) If the borrower decided that the lender was making to much money on plan B or Lender B then they may take Lender A. That would be a $20,892 mistake! All based on the fear of profit to the lender.

I am sure I have more, but I just appreciate if someone reads this.

THANKS,

Andrew Conniff

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