From: "Doug Ardy" <doug.ardy@lakewoodhome.net> on 04/04/2008 06:00:04 PM

Subject: Regulation Z

My name is Douglas Ardy, General Manager for Lakewood Home Finance, a mortgage broker in Grand Rapids Michigan. I am writing today to comment on the proposed changes to Regulation Z.

Before I get into a more detailed discussion of some of the concerns I have with this proposal, I would like to share some findings of a recent study I viewed today. It found that over 70% of mortgage broker loan originators that are still in business today have been in the industry over 5 years. It is no longer an industry where unskilled, uneducated, or unethical people can survive. The vast majority of originators left in this industry are true professionals that provide a valuable service to consumers and lenders nationwide. I point this out because if this rule is enacted in its current form, we will likely loose many of the mortgage broker professionals from this business.

The first concern I would like to address is the new rule to determine what is considered a high cost loan. The way it is currently written (APR 3% above 10-Year Treasury) is fundamentally flawed. Even with the 10-Year being at historic lows, this threshold would be exceeded for nearly ever loan originated. Furthermore, it punishes borrowers who purchase less expensive homes as the APR is generally higher on lower priced homes. It should also be noted that the 10-Year Treasury is not always in proportion with what long-term mortgage rate trends. It would be a common occurrence that the calculation based on the above logic would cause the outcome of the definition to change on a daily basis. Loans that would be under the high cost threshold one day may be slightly over the limit the next.

Much of the new proposal seems to be focused around the Yield Spread Premium (YSP) discussion. YSP is so much more than how I too often see it defined ‘the fee paid by a lender to a broker for higher rate loans’. If a borrower goes to a bank and is quoted a rate of 6.5%, we as broker’s, may be able to offer that same borrower 6.375% which is paying 1% YSP. If the borrower is given a lower rate than a bank, how is the definition of a higher rate loan accurate? In this same instance, based upon the proposed rules, a broker would have to disclose much more information than the bank would. If the goal is to protect consumers, it is imperative that the banks and lenders disclose any factors that result in the offered rate before application just as the brokers will be required to list the YSP. Imposing this requirement only for brokers undermines the consumers ability to appropriately compare loans from different sources. Banks and lenders make money in the same proportion brokers do. The higher the offered rate, the more money is in-turn generated. Banks and lenders will often sell their loans or servicing for an SRP (Servicing Release Premium) or other form similar to YSP. Since we as brokers, already disclose the YSP several times throughout the transaction, it is time the banks and lenders catch-up to our current high standards of disclosures.

While I commend many of the proposals contained in the new regulation, I urge that the provisions above be re-considered for the betterment of the consumer and mortgage brokers alike. I thank the Board of Governors of the Federal Reserve of opening up the floor for comments and considering our suggestions.

Sincerely,

Douglas G.W. Ardy
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