From: Kelly Guldi <kellyfamb@gmail.com> on 04/08/2008 03:55:04 PM

Subject: Regulation Z

From: James "Kelly" Guldi
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Address: 1939 Boothe Circle, Longwood, FL 32750
To: Board of Governors of the Federal Reserve
Subject: Docket No. R-1305
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I'm writing to express my support for the admirable consumer protection goals of the Federal Reserve Board's proposed amendments to Regulation Z. However, I respectfully oppose the proposal to restrict compensation for mortgage brokers.

Federal and state regulators, politicians, media and consumer-protection groups often misunderstand the role mortgage brokers play in the loan origination process. There has been a hue and cry of late for the mortgage broker's compensation to be drastically curtailed, for it to be tied to the long-term performance of the loan, or for it to be refunded in the event of future defaults on the part of the borrower. And although there have been some egregious violations of law, ethical standards of conduct, and prudent business practices by some participants in the mortgage industry, these behaviors are by no means the standard, nor are they restricted to mortgage brokers. To clarify some mis-understandings, I would like to offer my perspective as a licensed mortgage broker in Florida since 1997.

First, some basic economics. Mortgage brokers provide both products and services. The products are financial, ie loans to consumers. The services are related to knowledge, experience, expertise and contacts. Mortgage broker's knowledge of loan products, underwriting guidelines, and financial conditions allow them to recommend loan options to consumers. Their experience with the mortgage approval and closing process and the operational requirements of various lenders allows them to guide consumers' loan requests efficiently through the origination process to a closing. Their expertise is an ability to combine knowledge and experience in a more effective manner than competitors, including other mortgage brokers and loan originators working for banks or direct lenders. Finally, their contacts with people in the process allow them to serve consumers - personal relationships with lenders, appraisers, insurance agents, title agents, attorneys, real estate sales agents, surveyors, home inspection companies, etc, are at the disposal of the consumer whose loan they are arranging. For the locally owned mortgage broker shop, there is no way to separate the product from the service. It is a comprehensive package.

At the same time, mortgage brokers provide something of value to lenders. All of the resources listed above also benefit a lender who wants access to local consumers, but in some cases may not be willing or able to expend the resources to market and establish a local presence. The overhead necessary for a large lender to set up shop in a community will require a certain volume of loan production. Some communities by virtue of size or economic disadvantage are undesirable or inaccessible to lenders, leaving borrowers in those areas with little or no access to loans absent mortgage brokers. An experienced, knowledgeable, local mortgage broker submitting an organized loan request, together with financial, credit and collateral
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documentation provides something valuable to a lender who may be based in a distant metropolitan center.

To reiterate: the fees paid to mortgage brokers are for products and services that benefit both borrowers and lenders. Because they stand in the middle of the transaction, because they offer something of value to both borrower and lender and because they negotiate for compensation with both entities, they represent NEITHER.

As the mortgage market increased in momentum over the last 10 to 15 years, the players in the middle have diversified and specialized. Whereas before the late 1980's, mortgage brokers were essentially arranging loans for borrowers whose credit did not meet bank requirements and were only eligible for "private, hard-money" loans, by the early 1990's they were selling as many "A" paper loans as they were sub-prime loans. In addition, many successful mortgage brokers increased their volume of loan origination and began to fund loans at closing, only to sell them within a few days or a few weeks to larger portfolio lenders. Ultimately this culminated in a large influx of "pass-through" lenders whose ultimate source of capital was investors in funds securitized by Wall Street investment banks and brokerages. This meant that most lenders were nothing more than glorified mortgage brokers, with some providing varying degrees of servicing to receive loan payments on behalf of the owners of those mortgages.

For the average consumer it became nearly impossible to distinguish between brokers and lenders, many of whom have similar names, use similar signage, and rely on similar advertising. The differences they might note in quality of service, attention to detail, follow-up and professionalism did not derive from whether the originator funded the loan directly or brokered it to a third-party lender. They resulted from the originator, not the product. Asking mortgage brokers to disclose indirect compensation (also known as Yield Spread Premiums or Service Release Premiums) in advance of application, but allowing lenders to continue to do business as usual would create a disparity in the marketplace between participants who are otherwise offering consumers an identical product. Because rules that were created in 1974 via the Real Estate Settlement Procedures Act (RESPA), the basic economics of the mortgage market are not reflected in the regulatory or legal framework. In the current realities of today's mortgage market, any disclosures must apply equally to ALL mortgage originators, not just brokers. A consumer should see the same disclosure for the same loan REGARDLESS OF THE ORIGINATOR.

In conclusion, I believe our goals are the same. We all want a fair and transparent place in which to do business. Our business is dependent on the success of our customers. As mortgage brokers, we don't receive income over the life of the loan, so we depend on repeat business and direct referrals from previous customers. Unfortunately, a lot of people got into the mortgage business in the last few years to turn a quick buck. But those of us who have been doing it a while will be hear tomorrow. The reason we will continue to be successful is because we have made our customers happy and eager to point their friends, family members, acquaintances, and others in our direction.

I want to thank the Board of Governors of the Federal Reserve for considering my comments.

Kind Regards,

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