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Comments:

First I would like to commend the Board on taking steps to ease the credit crisis, and to find ways to prevent another crisis like this in the future. I would like to comment on the proposed Reg. Z Rule Amendment (Docket No. R-1305). I have been both a Mortgage Broker and a Mortgage Banker. I currently work for a large regional bank. The difference that I have seen, first hand, from brokers to bankers is that brokers represent NEITHER party in the transaction. They represent themselves. There are people that have one week been working in another industry and the next week are working on a mortgage application for someone's most important, and probably the largest investment that they have made in their life at that point, and the only requirement was to pass a state licensing exam, if their particular state even requires a licensing exam, or work for a lender that is not required to have licensed employees. In contrast, if someone wants to buy a single share of Bear Stearns stock for $2 or invest in a mutual fund, the person that they talk to must be federally licensed, and work for a Broker that is federally licensed, and is monitored by NASD, SEC and any state agency that may be required as well. I believe that this would be a good place to start, requiring a federal license, and state license if that particular state requires a license. Also like a securities broker, the mortgage broker should be associated with a firm that is nationally licensed, and nationally regulated. I know that the lenders that they are brokering the loans to are state licensed and possibly licensed as “dealers” on Wall Street, to sell their CDOs and SIVs, but as we see now what we have in place is not enough. Any good broker would be able to pass these tests and would be able to align himself or herself with a national broker. Now I am not saying that all brokers are bad, nor serve a purpose, but I have seen all to often that good borrowers have been put in bad loans by mortgage brokers, because the lender that they are brokering that loan to was paying higher Yield Spread Premiums on a particular type of loan. Banks on the other hand, have a higher responsibility than brokers; they are federally regulated, they have CRA requirements, and many of them have shareholders to answer to, not to mention the fact that they have to maintain a credibility level to retain and grow deposits, which is the core business for banks. I think that the Board should look at this issue in a bit of a different approach. Sub-Prime loans have helped many people purchase homes that could not have done so with out the Sub-Prime arena, however I agree that the Board should only require extra disclosures for “Sub-Prime” loans and some “Alt-A” loans. I think that the 3% over the comparable Treasury definition as a “higher-priced mortgage loan” is too broad of a definition. I think that the 30 yr fixed FNMA required net yield (60 day) is a better index to base a high cost loan scenario off of. You could use this index plus a 1.5% margin for fixed rate mortgages and .5% for Adjustable Rate Mortgages (ARM) as a high cost loan. Right now the 30 yr fixed FNMA required net yield (60 day) is now at 5.81% thus making the “higher-priced mortgage loan” threshold 7.31% for fixed rate mortgages and 6.31% for ARMs. These thresholds for the different type of mortgages would include most of the Alt-A loans and I would imagine ALL Sub-Prime loans at this point. I think that the disclosures should be simplified. There should be a one-page disclosure that says that “This loan is considered a high cost mortgage loan and you may be eligible for a lower cost loan.” This disclosure should be required to be given at the same time the Good Faith Estimate and the Truth-in-Lending disclosures are given, with in 3 days of application, thus giving the borrower time to shop for another lender to provide them with a lower cost option. In conclusion I would like to thank the Board of Governors for considering my opinion, and valuing the public opinion in their decisions.
