

April 8, 2008

TO: The Board of Governors of the Federal Reserve System

As owners of a small mortgage broker firm in Pasadena, Maryland, we would like to express our concern regarding proposed changes to Regulation Z/Truth in Lending-Docket No. R-1305.

We understand and support many of the changes that are being proposed in regards to consumer protection. However, we also feel that mortgage brokers are being put in a very unfair position with many changes directed strictly at them and not to lenders.

All of these proposals and speeches in the industry make claims that they want all aspects of the lending process to be FAIR, TRANSPARENT and in the best interest of the consumer. However, exempting the lenders from many of the same standards and requirements that mortgage brokers are held to is not fair to the mortgage broker and is certainly not being honest with the consumer. We see e-mail advertisements every day from lenders directed at recruiting loan originators from mortgage brokerage firms and specifically stating in their ads, that as lenders, they do not have to meet the same disclosure requirements as mortgage brokers do, including disclosure of how compensation is earned. We also know of loan originators who had less than honorable intentions that specifically chose to work for a lender so that their backgrounds would not be checked.

Unlike banks and federally chartered lenders, most of whom are now out of business or are very involved in the news with major financial problems, mortgage brokers are already held to a higher standard. Most states require the loan originators of mortgage broker firms to be licensed and/or registered, which also require a criminal background check. Loan originators that work for mortgage broker firms are also required by most state licensing agencies to meet continuing education requirements. Mortgage broker firms are also required by most states to submit multiple reports and audited financial statements to various state agencies and are subject to audits to review loan origination policies and procedures and to make sure that the brokerage firm is in compliance with all State and Federal law, including disclosure laws. Those of us who are licensed by FHA are also required to have a very strict quality control plan in place and this is audited annually for HUD, which is also financially very costly to the mortgage broker.

The most unfair change and also the most confusing to the consumer, is the requirement for the mortgage broker to disclose the amount and how they will be compensated for their services, yet the lender does not have to do this at all. How can any one claim that this is upfront, transparent or even honest to the consumer? The lenders earn Service Release Premium (SRP) when they sell the loan on the secondary market. The lenders will say that they do not know how much they will sell the loan for, thus they can't specify the SRP on their documents, but that is not exactly true. By the same token, when a consumer contacts a mortgage broker, the broker can not guarantee the rate until the application is completed and then locked with an investor. Often times, the market changes within hours of the same day, and the broker can end up making more money but many times they end up making less money. To require the broker to disclose exact compensation when the lender does not have to indicate in any way the amount of money they will be making on a loan is very unfair to the broker and ultimately to the consumer. This will not let the consumer compare apples to apples, thus making an already confusing process even more difficult for the consumer. Ultimately, we may find it necessary to put in our files, our own disclosure statement to the consumer explaining how the banks and lenders get paid (SRP).

As business owners, we are obviously in business to earn a profit. Mortgage Brokers incur costs, just like every other business. We can not think of other industries, aside from investment firms, that have to disclose their profit to the customer in order to do business.

We would like to think that it really is possible for our comments to be considered when decisions are made that ultimately affect our business and our families. We do not feel we should be penalized as a mortgage broker who has been upstanding in our dealings with consumers, because others in the industry, including lenders and consumers, were the cause of many of their own failings. We would appreciate any effort to take our thoughts and concerns into consideration when making policy decisions.

Brian Lister
President

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Vice President