From: "Aaron Terreri" <aterreri@bluecoasthomeloans.com> on 04/07/2008 05:45:02 PM

Subject: Regulation Z

Dear Federal Reserve Board Representative,

I believe that when borrowers start using the "least paid" as a criteria for loan selection, that means that the most skilled mortgage professionals (the best able to find the lowest rate and fee combinations for clients, best able to structure approvable loans, and best able to ensure that a loan closes on time) will be squeezed out of the industry, since in a free-market, the most competent workers will tend to demand the highest compensation. Docket No. R-1305 would go a long way towards ensuring that borrowers will shop around for a broker that is willing to accept the least amount of compensation or a direct lender that does not have to disclose compensation, and slowly weed out the best/most skilled in the mortgage industry, since the least-skilled/most poorly compensated would demand the least compensation.

I am the President of an A-Paper mortgage broker that specializes in purchase financing. We have never solicited sub-prime or neg-am loans. I do not know how much industry experience/knowledge the evaluators of my comments have, but as a mortgage broker I have access to wholesale rates from our lenders, which tend to be approximately 0.125% to 0.25% better than the retail banks are able offer their clients (statistics have proven that clients get better loan terms from brokers). I mention this because it is a statistical fact that brokers offer better loan terms, but there is a huge perception among average consumers that **going direct cuts out the middleman**, and avoids **junk fees**. Banks spend millions of advertising dollars to create/perpetuate this false perception, and it is one of the first things a bank loan officer touts as a reason to go direct.

I strongly agree with protecting consumers/giving them as much information as possible to make an informed decision. Realistically, looking at the prevailing attitudes regarding mortgage brokers vs. direct lenders, the following provision from Docket No. R-1305; would have the opposite affect:

Lenders would be prohibited from compensating mortgage brokers by making payments known as "yield-spread premiums" unless the broker previously entered into a written agreement with the consumer disclosing the broker's total compensation and other facts. A yield spread premium is the fee paid by a lender to a broker for higher-rate loans. The consumer's written agreement with the broker must occur before the consumer applies for the loan or pays any fees.

There are 2 ways that this would create miscommunication and harm consumers:

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1. We educate our clients as much as we can, regarding our how our broker compensation works. There is a trade-off between the interest rate they will receive and the fees they pay. The lower the interest rates, the higher the fees. But consumers are constantly bombarded with the notion that there are should be no fees associated with loans. Bank of America (and most major banks) have a very strong campaign on television, radio, and the internet to "Stamp out junk fees", and go direct. Consumers do not understand that there are **real fees** associated with any loan transaction; underwriters, processors, and funders do not work for free. I normally give a client 3 quotes on a transaction:

    a. A 5.375% 30 year fixed charging 1 point as an origination fee paid directly to us.
    b. A 5.5% paying 0.5 points (usually receiving 0.5 YSP in compensation from the bank)

c. A 5.625% with no points (usually receiving 1 point in YSP from the bank)

Any bank we broker this loan to charges our client approximately $700 for underwriting, flood certification fees, table funding, etc. That leaves a fee-sensitive client with a 5.625% with a total of $700 in closing costs. If I have a client locked in at a 5.625%, but then they see an ad: Bank of America is offering a 5.875% with “no junk fees”. Many times the client wants a true no cost loan, with no “junk fees”. I tell our client that we can pay all of the fees for them, but that they will have to take a higher rate in order for Blue Coast Home Loans to pay the bank’s $700 fees for them. Even though they are worse loan terms for the client (they plan on living in this home long term, and are now paying higher interest over the life of the loan), I now have to increase the rate to a 5.75% to earn additional YSP to cover the “junk fees” that most consumers do not think should exist in a loan transaction. Under Docket No. R-1305, I would not only have to sign an original contract stating the bank is paying us $XXXX.XX dollars (which many less-educated clients will walk away from, because there should be no costs associated with a loan, why is anyone getting paid?). Even though I have a AA/perfect rating with the Better Business Bureau, and our company has never had a complaint; there is not a lot of trust in dealing with an out-of-state, internet-based broker. And now this broker is saying he has to amend this contract and give me a higher rate so that the bank pays him more money so that he can cover these “costs”, which I don’t even believe are real? No, I would rather go **directly** to Bank of America’s retail, where they are honest and have no cost loans. The broker was offering me a 5.75% no cost, and B of A is offering a 5.875%, but the broker was talking about thousands of dollars in fees/YSP, and in the end was probably lying about the 5.75% rate with no costs. “No junk fees” is so much simpler. Client goes with direct lender at worse loan terms. The details change but this is already a common scenario which Docket No. R-1305 will only exacerbate.
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2. YSP is not an indicator for the best loan terms. The rates and fee combinations that a good broker can offer versus an inexperienced broker, even if both brokers are being compensated equally, can be staggering. I just did a loan for a client that was an employee at Union Bank of California. She was buying a home, full doc, with a 580 fico score. Union Bank offered the employee discount, a 7.5% with no points on a 30 year fixed. Her brother was a mortgage broker, and he offered her a 7.25% and he told her “I am only making a quarter point on you”. She wanted to get a 3rd quote, so she came to me. I offered her a 6.25% paying 0 points. She asked what I was making, and I told her 2 points (which is more than I normally make, but this one took a lot of work getting credit supplements/improving her credit scores. I got her a rate 0.75% below what her brother and her employer were able to do). She was a referral from a friend, so she moved forward with Blue Coast, but many would borrowers would have balked at Blue Coast receiving 2 points when they have someone that will do a loan for “cheaper”.

Many clients call me from out of state, and they ask “what is your rate and fee”? Then they ask “how much are you making”? If I say “one point”, the borrower **invariably** tells me that they have someone that will do it for $XXX (usually around $500), at a local bank. That bank will not lock in the rate until the loan has been approved, but **obviously** that bank is going to be able to offer the client a better rate since the client is **going direct**, **cutting out the middleman**, and avoiding **junk fees**. The bank (we can even use the example of another broker that agrees to make a half point instead of one), may not have access to the same rate sheets/may not have the knowledge to offer the client the best rates, but the client took the loan where the loan officer either claimed (banks do not have to tell how much they really make), or in reality (broker did the loan for a half point) got paid the least. They used that as an indicator.

When borrowers start using the “least paid” as a criteria for loan selection, that means that the most skilled workers will leave the industry, where pay will be on par with their skills/work ethic. It would be a huge disservice to the consumer to leave only the least-skilled/most poorly compensated work as mortgage professionals, which in the long run would hurt consumers (and the banks and investors that buy poorly originated loans, for that matter).

Please feel free to call me directly at 714-705-4117 at any time regarding my comments.

Sincerely,

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