From: "Pamela Capo" <capocms@bellsouth.net> on 04/08/2008 03:35:06 PM

Subject: Regulation Z

April 7, 2008

RE: Docket No. R-1305

Dear Board of Governors:

It is my intent in this letter to express my support for the consumer protection goals of the Federal Reserve Board's proposed amendments to Regulation Z. However, I respectfully oppose the proposal to mandate Mortgage Brokers to disclose their compensation to the customer prior to the loan application process. I support full disclosure of compensation for ALL Loan Originators, not just Mortgage Brokers.

I am a Mortgage Broker in Suwanee, Georgia. I have owned my company since 1999 and have been a Loan Originator since 1988. Over the last 20 years, I have worked as a Loan Officer for Carteret Savings Bank, New Market Capital, Paine Webber Mortgage, Merrill Lynch, Independent Mortgage Services and my own company, Competitive Mortgage Services, Inc. Since I have extensive experience from all three of the major origination channels (bank, mortgage banker, mortgage broker), I can truly state that Mortgage Brokers can offer the consumer a broader range of products, rates and closing costs options and increase the likelihood of a loan approval for their customers.

My goal as a Mortgage Broker, is to counsel each prospective borrower to ensure that they understand the mortgage process, examine their individual monthly budget for their new housing expense and to secure the best financing terms that they qualify for given their ability and willingness to repay the mortgage loan.

As a Mortgage Broker, I work with direct lenders such as Wells Fargo, JP Morgan Chase, and HSBC Mortgage Corporation. My company is independent from these direct lenders and we are under no contractual obligation to place loans with them nor do they require a certain volume of business from us.

When I place a loan with a direct lender, there are several criteria I consider before I make the decision as to which lender to use. Such as: Does the lender have the loan program that meets my customer's needs? Does my customer meet the underwriting guidelines for that particular lender? Can the lender underwrite and close the loan in my customer's time frame? Lastly, does the lender have the best rate/points/rebate options so that I can offer my customer a highly competitive rate package?

I prefer to serve my customers as a Mortgage Broker because I can truly be independent from the lenders. If my company was operating as a Mortgage Banker, then the direct lenders would require a specific volume of business from my company each month. In order to meet the volume requirements, I would have to make the decision as to where to place each loan based on volume requirements and not by the criteria that I have outlined above. This would hurt the consumer as their options would be limited.

I would like to give you a brief overview of the application process when a prospective borrower contacts me for my services.

(1) Initiate a brief interview to discuss the borrower's needs for a mortgage. In this discussion, we talk about monthly housing budget and loan programs. I will calculate an estimated payment if the borrower has a particular property in mind to purchase. I gather some preliminary qualifying data to see if the borrower has the ability to secure a mortgage for the amount that they are inquiring about. The prospective borrower wants to know what are my rates and closing costs.

(2) I generate at least three Good Faith Estimates (GFEs) based on the current days rates. Each GFE has three different rate and closing cost options. Often, my customers select a slightly higher rate for a 0% origination fee loan. At this slightly higher rate, the direct lender is paying my company a Yield Spread Premium (YSP). This YSP often is the only compensation my company receives in lieu of receiving an origination fee. An example of a rate offering today would be:

Option One: 5.500%, 30 yr fixed rate, 1.00% origination fee, APR 5.716%
Option Two: 5.625%, 30 yr fixed rate, .50% origination fee, APR 5.796%
Option Three: 5.750%, 30 yr fixed rate, 0% origination fee, APR 5.875%

(3) The prospective borrower usually reviews the GFEs for a day (rarely do they make a decision the same day as they need to consult with their spouse or peers) and then if they are happy with what I am offering, they will schedule an appointment with me to complete the loan application.

(4) At the loan application interview, we complete the entire application (usually over the phone), and then discuss the option to lock-in on a rate. It is the policy of the direct lenders that the brokers do not lock in on a loan unless we have a completed loan application including signatures. Once I have the borrower(s) signatures (and this could take the borrower several more days to complete and return to my office), then we can lock the rate.

(5) Since rates change daily, and in this very volatile market, often we can have three to four rate changes a day, the rate options quoted above can certainly change.

(6) If the rates changed during the application process, we discuss their options on whether to lock-in on the rate or float. It is my job to counsel the borrower on this decision. I am proud to use the services of the Mortgage Market Guide that gives me real time data and information. This very useful service has saved my borrowers thousands of dollars over the years.

(7) Once the rate is locked with a direct lender, I am comfortable knowing that as long as the loan is approved and funded before the rate lock expiration, my borrower's rate is protected and the terms we have agreed to will be honored.

In looking at the steps above, if Mortgage Brokers are required to disclose the YSP up-front prior to the loan application, you can see that there will be a need for re-disclosure. The reason is that not until the loan is locked-in with the direct lender, do we truly know what rate/points/origination fee we can commit to the borrower. In addition, since the YSP for a particular rate changes (often multiple times per day), we do not know what YSP will be received by the direct lender until the rate is locked.

If I was required to disclose the YSP on each loan option above prior to the loan application, the YSP would be: .053%, .456%, .818% respectively. However, by the time the borrower is eligible to lock-in the rate, the YSP can change, thus requiring re-disclosure.

Another problem arises if the borrower does not qualify for the loan they have applied for and thus their locked rate no longer is available to them since they do not qualify for the loan. As a Mortgage Broker, I can re-package the same loan and submit it to another lender for approval. In most cases, the rates/point/origination fee and YSP will be different than originally disclosed to the borrower.

In most cases, the other origination channels are making much more money on the back end of each loan. Most of them charge an origination fee and receive Service Release Premiums (SRPs). Since they are not even required to disclose the SRP on the HUD, it is unknown to the public how much compensation they are earning on the transaction.

If only Mortgage Brokers are required to make this disclosure and if the banks and mortgage bankers do not disclose this information to the consumer, I can see how this would only lead to even more confusion by the customer in an already confusing, highly complicated process.

If the process was truly transparent from all origination channels, then the consumer can make a better assessment as to which lender can offer the better rate package.

I am very concerned if this proposed rule goes into effect, it will force many Mortgage Brokers out of business. I hope I have conveyed to the Board of Governors the value that I add as a Mortgage Broker to the consumer and the service I provide to both the consumer and the direct lender.

Thank you for considering my comments regarding the proposed Regulation Z amendments.

Regards,

Pamela S. Capo
President,
Competitive Mortgage Services