April 8, 2008

Board of Governors
Federal Reserve System

Re: Docket No. R-1305

To whom it may concern:

My name is J. Allan Hossick, president/owner of Community Home Mortgage Corporation, a licensed mortgage broker in the State of Maryland. Prior to starting my company in 1994, I worked for various mortgage banking firms [lenders] starting in 1978 as a retail loan officer for three years prior to being promoted to Vice President/Branch Manager and loan originator for thirteen years.

Having originated loans now for 30 years, half that time as a lender and half as a broker, the only difference in originating loans as a broker versus a lender has been the additional disclosure of the yield spread premium [YSP] on the Good Faith Estimate showing as a range of 0% to 3% and the actual YSP shown on the HUD-1 settlement statement at closing. The rate sheets we worked off of when working for mortgage lenders looked no different than the wholesale rate sheets we work off of today. Retail loan officers working for mortgage lenders have the same options that brokers have when quoting rate and points. In both cases, YSP's, shown as above par pricing on all rate sheets [wholesale rate sheets and lender rate sheets] are utilized to reduce the upfront costs to the consumer by allowing the consumer the choice of paying a slightly higher rate to avoid paying more points and/or additional closing costs. A typical example would be to charge the borrower a 1% loan origination fee [otherwise known as a 1 point] and receive approx. 1 point from the lender in the form of a YSP, which totals about 2 points, which is the minimum average amount that my company needs to make to keep its doors open. I never could understand why mortgage brokers are subject to disclosure of the YSP when lenders are not. Lenders can very easily disclose their YSP straight off their daily rate sheet just like brokers. Consumers primarily shop rate and points and the Truth in Lending factors in additional fees such as processing fees, underwriting fees, document prep fees, etc., which by the way can be manipulated in a way to avoid having some of the closing costs included in the APR. Keeping disclosure simple provides the consumer sufficient information to shop for a mortgage by comparing rate and points without differentiating whether the mortgage company is a broker or a lender. Keeping it simple is much more beneficial to the consumer. Requiring brokers to disclose the YSP creates more confusion in the eyes of the consumer, which lenders use to their advantage which unjustly places mortgage brokers in an unfair disadvantage, especially if the new 4-page HUD proposed GFE is approved, which is definately too many pages and its very confusing. I support the consumer protection goals that the Federal Reserve is proposing, however, I oppose the proposal to restrict compensation for mortgage brokers by requiring them to disclose YSP in a different manner than lenders or to have to show it as a credit to the borrower, which is absolutely unfair and disadvantageous to the broker, which would limit our compensation to the point of driving us out of business, which would result in less competition and higher rates and fees passed on to the public.

The mortgage broker acts as an intermediary between the borrower and the lender and adds value in the real estate transaction by serving both parties, but does not and should not represent either. Mortgage brokers typically work with several wholesale lenders giving consumers more choices of loan programs while providing more flexibility and in most cases more competitive rate quotes than mortgage lenders. Most mortgage lenders limit their loan officers choices to the "in house" programs and do not allow them to "broker" loans elsewhere. Some mortgage lenders allow their loan officers to "broker" out the loan to offer their sales force more choices to offer to the consumer, however, they discourage it by tacking on an additional 1/2 to 1 point to the wholesale price the other lender is offering. Mortgage brokers must compete with mortgage lenders while the distinctions between the two have blurred in recent years as mortgage lenders themselves typically package, price and sell loans they originate even prior to the loan closing.

Consumers are largely unable to distinguish between brokers and lenders and to be perfectly frank, it should not matter to the consumer. Mortgage lenders and brokers all have similar names, use similar signage, and rely on similar advertising. We all work off of a similar rate and pricing sheet, albiet one is a retail sheet and the other is a wholesale sheet, but to the consumer we should not be looked at or viewed any differently. Differentiating brokers and lenders does not accomplish anything, other than enabling the brokers competitors to steer consumers away from brokers, even if brokers offer more favorable terms, which based on factual data, brokers do more than 50% of the business.

The proposal requiring brokers to give a reasonably precise dollar estimate of fees a broker will charge in a transaction even before an application is submitted is practically impossible because the broker does not yet know the prospective borrower's financial status, transaction details, type of product sought, or amount of the loan, all of which may vary as the transaction progresses. Requiring brokers to disclose an exact YSP once the borrower locks is a bone of contention with most originators, especially those that have accumulated sufficient net worth to allow some risk taking in their ability to monitor the fluctuations in the bond market and mortgage backed securities, which is constantly changing, giving those that elect to gamble the ability to earn "marketing gains" should the market improve, or "marketing losses" should the market go the other way. In a "free enterprise" economy, like the United States of America, we should continue to have the freedom to earn additional YSP as a result of our ability to secure a price better than the price in effect at the time the borrower elects to lock in the rate and upfront points. If we are not competitive with our initial quote to the consumer, we stand the chance of loosing that customer to the mortgage company just down the street or right next door. Needless to say, their are a lot of mortgage companies out their, and simple market forces keep constant pressure on companies to quote aggressively. Marketing gains allow us offer lower quotes up front to the consumer if we are successful in our ability to watch the market fluctuations closely given the tools available to us [at a cost] to make appropriate decisions as to when to lock with the wholesale lender and when not to lock. If the borrower wants to lock at loan application or float and request to lock in at a latter date we issue a written lock-in agreement for 30, 45 or however long the borrower needs depending on the settlement date and always honor that written agreement with the customer. The banking commission will not tolerate brokers or lenders that do not honor written agreements and will require reimbursement to the consumer should that occur. Higher net worth requirements for brokers should be put in place. Brokers that have a low net worth are more apt to make irrational decisions and are under constant pressure to make every loan work, possibly leading that broker to do things on the loan that may not be in the best interest of the borrower or the lender. Brokers that have a high net worth tend to be more experienced and professional in nature and tend to do things the correct way.

May I suggest that the Federal Reserve consider alternatives to the proposed regulation which would protect consumers in their dealing with all mortgage originators, not just brokers, to encourage further competition on price and service.

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

Sincerely,

J. Allan Hossick