From: "Joe T. Stroud, Jr." <joe@efedwardsfinancial.com> on 04/07/2008 08:55:02 PM

Subject: Regulation Z

I am a licensed Mortgage Broker in Sierra Vista, Arizona and would like to comment on your **Proposed Rule Amending Regulation Z (Truth in Lending and HOEPA).**

I've been a Mortgage Broker since January 1999. I was a loan originator for three years before that. I've served as the President of the Tucson Chapter of the Arizona Association of Mortgage Brokers. I've served on the Board of Directors of the Arizona Association of Mortgage Brokers for several years. I'm a very strong advocate of increased consumer education. I teach classes approved by the National Association of Mortgage Brokers or the Arizona Department of Real Estate.

I have a conscience and am PROUD TO BE A MORTGAGE BROKER.

Let me begin by saying that I am in favor of many of the proposals in the Federal Reserve Board's proposed amendments to Regulation Z. However, there are some that I believe, if implemented, will cause more harm to the consumer than good. I believe one of your guiding principles must be (as it is for the medical profession) "first, do no harm."

I doubt that you'll be surprised by my objection to the requirement that ONLY mortgage brokers must disclose Yield Spread Premiums (YSP). What I find most objectionable is WHY you feel it is important for mortgage brokers to disclose YSP when you don't propose requiring ALL originators to similarly disclose.

Just because I know, when I lock a loan, how much I will earn and a "lender" won't know for days how much it will actually make on a given loan doesn't mean that the consumer needs to know (or benefits from knowing) how much either of us makes on the loan to determine which is best for him or her.

I have personally analyzed the Good Faith Estimates provided to my clients that they were given by other loan originators (the Bank of America, Wells Fargo and Wells Fargo Home Mortgage, Countrywide, etc.). I have routinely given my clients loans that really were better loans than offered by such bank and mortgage banks. Often with interest rates up to 1.125% better and with fees equal to or lower than those associated with my competitors. None of those lenders had been required to disclose a YSP or any other indirect compensation.

I lost one loan to Wells Fargo after my disclosure of my compensation based on YSP. In that case, the borrower admitted that my interest rate was better and my fees were similar, but since I was getting about $3,000 *that Wells Fargo wasn't getting* , my loan must, somehow, be more expensive.

My ability to earn a YSP from my wholesale lender compensates me and my company for the work involved in originating and processing the application. It also covers my cost of doing business (rent, utilities, telephone expenses, computer equipment, employee compensation, licensing expenses, insurance, retirement program for my employees, advertising, and marketing expenses).

Because I can earn indirect compensation from many wholesale lenders who could not otherwise be represented in my market area, my customers have access to a wider range of loan products, more competitive rates, and lower fees than those charged by my institutional lender competitors.

Because I can earn YSP, I can also offer my customers loans with low closing costs. Many of my customers couldn't afford to buy a home if they had to pay all of my company's compensation directly at closing. Nor could they afford to get a loan from a direct lender if they had to pay ALL of that lender's compensation directly at closing.

My opposition is only compounded when I read the results of studies/tests conducted by the Federal Trade Commission which found that such disclosures by only the mortgage brokers caused: "a significant number of consumers to chose loans that are more expensive than the available alternatives, and create a substantial consumer bias against broker loans, even when the broker loans cost the same or less than direct lender loans."

Further, in HUD's proposal (currently out for comment), at least 16 pages are dedicated to justifying the benefits of mortgage brokers (exclusively) disclosing YSP. At the end of those 16 pages, HUD's tests (after revising the proposed revised Good Faith Estimate several times) still showed that some consumers were not correctly identifying the less expensive loan option. As you know, the only difference between the two disclosures was the YSP to the broker. Even if that percentage was as low as one or two percent, if there are hundreds of thousands of mortgages originated every year, then a significant number of consumers are harmed by solely by a requirement for us to disclose YSP.

For the life of me, I cannot understand why it is imperative for mortgage brokers to be singled out to disclose their compensation. I suspect that it's because there's a misunderstanding about how the YSP is calculated. In other words, an erroneous belief that the rate that is increased to earn the YSP is being based on the RETAIL par interest rate rather than the actual rate which is the WHOLESALE par rate. Most businesses earn revenue based on marking up a wholesale cost of a product and then selling it at a retail rate. Mortgage brokers are no different.

Or, perhaps it's because since only brokers must currently disclose YSP, there's an erroneous assumption that we're the only one's earning such a fee. I know that's not correct and suspect that others do too.

Perhaps it's politically expedient. Perhaps that's it.

But, if all of the governmental entities trying to help the consumer, really want to do so, then make it easier, not more confusing, for the consumer to identify the best, or least expensive, loan. Level the playing field. Make ALL ORIGINATORS, regardless of whether they're brokers, direct lenders, banks, mortgage banks, credit unions, whoever…disclose exactly the same way.

If you continue with the proposed requirement for only brokers to disclose YSP (or prohibit us from receiving YSP), you will not only disadvantage consumers, you'll (either intentionally or unintentionally) steer many consumers to higher cost loans.

Further, you'll drive many (perhaps all) mortgage brokers out of business. We're small businesses. We employ a lot of honest, hard working people. We contribute to our communities. We provide an honorable service to our communities.

Yes, we (like direct lenders, banks, etc.) have some bad apples in our industry. If you want to help consumers, get rid of them. Don't punish all of us for the transgressions of a relative small percentage who don't deserve to be in our business. Additionally, if you really want to find out where the problems are, talk to the people who know. In Arizona, talk to the Department of Financial Institutions and the Attorney General's Office. They'll tell you that there are far more complaints about lenders than brokers.

Require national licensing of ALL originators. Not just originators for brokers. One of the worst loan officers who ever worked for my company is currently employed by one of my competitors (the largest mortgage lender in the country). That originator needs to be licensed just as much as one who works for a broker.

Require all mortgage brokers to be licensed. I'd prefer that the states do it, but they won't then establish a national licensing system.

Please, with what ever action you take; don't throw out the baby with the bath water. Please, in what ever action you take, most of all "don't do any harm."

Finally, I'd like to thank the Board of Governors of the Federal Reserve for providing me the opportunity to provide these lengthy, but heartfelt, comments on this very important issue.

Respectfully,

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Mortgage Broker
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