From: Lance M. Blincoe

Subject: Reg Z - Truth in Lending

Comments:

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Proposal: Risk-Based Capital Guidelines; Capital Adequacy Guidelines; Capital Maintenance: Regulatory Capital; Impact of Modifications to Generally Accepted Accounting Principles; Consolidation of Asset-Backed Commerical Paper Programs (Regulations H and Y)
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I would like to specifically address R-1366 in regards to YSP. There is much debate about how YSP works and its place in the market place. It seems that elimination of YSP is on the table. Let us start with the understanding that it IS indirect compensation and it has its place. If brokers can't be paid based on terms of the deals delivered to lenders, how exactly are they going to be compensated? In many cases brokers will have to charge borrowers greater fees. Many brokers work for months with borrowers and must be compensated a certain percentage to stay in business. Eliminating YSP will further tilt the playing field toward mortgage bankers (who by the way will still receive premiums and income from marked up rates sold to borrowers). Other than a "classification" to in a customers eyes there is not a difference between mortgage brokers and mortgage bankers and they should be treated the same. At the end of the day they are all mortgage originators. The new GFE seems to further complicate how YSP works to a borrower. YSP is already disclosed on the following forms to the consumer: mortgage loan origination agreement, brokerage business contract, HUD1 settlement statement and TILs sent by the lenders after application. YSP helps keep the market viable. By eliminating it there will be more unemployment due to less small business (I guess all the brokers will go work for the banks doing the EXACT same thing?), less choice for the consumer, less customer service (most banks have voicemail and small businesses usually answer the phone). Please understand that most states and lenders already have a 3.5% cap on total compensation to a broker, subprime mortgages and most ARMs are non-existent. So in reality this bill isn't going to accomplish anything meaningful. I am going to attempt to explain this in laymans terms: Lets say I have a borrower purchasing a home for 100K. I basically need 2% on most loans to keep my lights on. The borrower pays rent of $1000 now but does not have a downpayment. The payment on the new mortgage is $800 The seller will only pay 3K towards the buyers closing costs which will cover an appraisal (up to $450 on average after HVCC), title work (usually about $800-1000) homeowners insurance policy for a year ($600) and underwriting fees of about $600. By having YSP available, my borrower doesn't have to directly pay my fee. I can offer a 5.25% rate to receive compensation and make this loan work or if they have the ability to pay my fee I can offer them a 5%. Most people will opt for the first option, which is the same option ALL BANKS WILL OFFER THEM. Except when I can't compete with my compete with the mortgage banks, my competitors can RAISE their rates because either way I "appear" more expensive. Thank you for your understanding and consideration in this matter. Please keep a level playing field for ALL mortgage originators regardless of what entity they work for.