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Subject: Reg Z - Truth in Lending

Comments:

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Proposal: Regulation Z - Truth in Lending - Closed-end Mortgages
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Comments:

I have been a fully commissioned Loan Officer and business owner for 13 years. The way LO's are paid at most Lender and Broker shops is by 100% commission or a small base + commission. This type of pay structure does have a influence on how a LO treats his client and what fees they charge. And before I go on I want to clarify that not all LO's take advantage of their clients but if a LO is rewarded by getting his client to agree to pay higher fees or take a higher rate to increase the YSP paid on the loan then why wouldn't he? The Lender or Broker they work for would encourage this behavior as well. So who is the LO looking out for, himself or his client? I think it is a bit of both.
I agree that a free market place should determine what a consumer is willing to pay for a service or product but getting a mortgage is complicated for most folks. It is not like comparing the price of eggs, comparing the fees on a mortgage is somewhat more complicated which discourages some from shopping around. And if you are working with a first time home buyer the likelihood they are going to shop you is slim to none.

Your clients look to you to be the expert and are relying on your skills to get them the best deal. But this situation may lead a LO to take advantage. This method of getting paid on mortgages got so bad in the late 90's that now most states have written laws putting caps on how much you are allowed to charge a client. North Carolina just outlawed YSP on certain loans and YSP is constantly under attack by consumer groups. These laws were implemented to prevent Lenders and Brokers from taking advantage of people that wouldn't necessarily question fees or interest rates. As professionals trying to regain the trust of the borrowing public, we should come up with a different way to be compensated that will change Lender and Broker behavior. Compensation that would encourage us to offer the lowest rates available and hold our fees to a minimum could be established. You have to "Think Outside the Box" here, but there are other professional service companies such as Insurance companies that pay in such a way that encourages the salesman to put his clients well being in front of his own. Insurance companies pay their independent agents in this manner. Every time you renew your auto, home owners, health or life insurance policy, the agent that helped you set up these policies gets paid. The agent initially spends a good amount of time getting the information needed to get these policies issued. But after the policy has been underwritten and issued the agent involved does very little. Because the initial cost of say a homeowner's policy is relatively inexpensive (600 to 900 dollars for a modest home) the agent doesn't receive much in the way of compensation when the policy is booked. As long as the policy stays in force though, the agent will continue to receive income over time. It's called residual income.

The more policies they put into force the greater their income will grow over time. They don't make all of their money up front. This pay method encourages the agent to stay in contact with his client and to review their coverage from time to time. If a client cancels a policy the residual income from that policy disappears. It is in the agent's best interest to keep these policies in force and their clients happy. If you applied this type of pay structure to mortgages it would change the behavior of LO's to promote good, low priced loans that will stay on the books longer. Instead of getting paid everything up front the LO would get paid based on what he charged up front and then again from the residual income. The LO could elect not to charge anything up front to be more competitive and totally rely on the residual income thus allowing lower upfront fees. Every time their client made a mortgage payment the LO would receive residual income from that loan much in the same way the servicing company get paid for that mortgage. As long as the loan is still in force and is being paid on time, the LO gets this monthly income The practice of raising the rate to achieve a higher YSP would all but disappear because the goal for the LO is to put a loan on the books that is going to stay. If a higher rate is charged the possibility the loan would be refinanced sooner is likely and the LO would have to repeat the work to put the loan back on the books again. Consumer groups who oppose YSP to brokers would no longer have an argument about this practice and the way it currently encourages raising rates. YSP is still a good tool for doing "No Cost" loans, but I think lender and broker fees would drop allowing a smaller increase in the rate and YSP to be used to pay third party costs. This type of pay structure would change the behavior of LO's from a short term prospective to a long term outlook.

It would encourage LO's to stay in touch with their clients and continually analze their needs. Once a loan goes on the books the LO will want it to stay there as long as possible and will want to be first in line to refinance or help with a new purchase for their client as their needs change. It would also support the LO during periods of slowdown allowing them to receive income even in months where nothing closes. It promotes mortgage businesses to stay in business long term again building confidence with the borrowing public and pay attention to their clients' needs for the life of the loan. When a loan drops off of the books or a payment comes in late, it gets the originator involved quickly because of the reduction in income. I don't think that getting rid of YSP is the answer. Wholesale lenders that offer products to brokers all price their loans differently.

To eliminate the YSP for brokers takes the incentive out of the search for the best priced lender for the consumer. It will also eliminate the No Cost loan which many brokers offer using the YSP to pay the borrowers closing costs If YSP is eliminated it also eliminates the incentive for lenders to be competitive. The incentive to be competitive keeps the costs in check. If this is eliminated the consumer will feel it in their pocket while lenders can hide behind the umbrella of Secondary marketing keeping all of the profits made and quoting a single rate that they want to sell to the consumer. It will also fuel the Wholesale lenders to price fix their products offered to brokers effectively shutting the door for brokers. Brokers do serve an important role by keeping the competition alive in the open market place. Banks and Wholesale lenders would love the chance of putting their competition out of business. I say this even while working for a bank.

If you remove the competition from the market place the consumer will ultimately pay the price for this unnecessary effort of our government to try and regulate this complicated issue. The Government has plenty of laws currently in place to protect consumers, they just need to enforce these current laws and hold people accountable. The new SAFE act and other regulations going into effect in the near future will go a long way in getting rid of the folks that take advantage of others. The new laws just need to be enforced. You cannot protect the consumer if you don't enforce the law currently in place. I know that this post was very long but we need to come up with some good ideas that will be effect for the long term. And coming up with solutions for such a complicated issue will probably take a lot more words that what is posted here. But at least it will get us all to thinking. Respectfully, Henry C. Abshier - Vinings Bank