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Proposal: Regulation Z - Truth in Lending - Closed-end Mortgages
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I have been an honest, ethical mortgage broker for 17 years. Over the years, unethical brokers who gouged clients may have come, but they go pretty fast too, because people do catch on. Unfortunately, you can not legislate morality and trying to do so only punishes the consumer because crooks will always find a way. The current proposal regarding the YSP paid to brokers will be bad for consumers and for millions of good brokers. Obviously, since the YSP is calculated as a percentage of the loan amount, then a broker will make more on a \$400K loan than a \$40K loan. However, a consumer/borrower is unlikely to be convinced to borrow more than they need by the broker for the sole purpose of the broker making more because their payment will go up. Recent changes in the mortgage market have already corrected this problem. Negative Amortization loans (which should have never been offered in the first place) are gone. This is the loan which tricked borrowers into not realizing the impact the loan amount had on their payment. Stated income loans are gone and in fact now illegal in many states. These were the loans that allowed consumers to borrow more than they could afford to repay. Subprime loans are extinct as well. Most consumers are aware of the general market rates because of commercials on television, so are unlikely to be completely taken. The elderly seem to me to be the most vulnerable and the lenders who I have seen trying to gouge the elderly the most are the big banks, whose online retail departments telemarket existing loans like crazy and generally make points close to 3 or 4. The YSP rules would not even apply to them. Mortgage Brokers have brought good competition to the mortgage market. Do you remember the 70s when typically only banks did the lending? Once brokers entered the picture, the banks had to drop their rates to compete. Even now, my rates always beat the local banks. My local Bank of America has a daily rate board in the branch and for many years I brokered loans to BofA Wholesale Division. Consistently, if the bank rate board offered 5.625 at 1/2 point cost directly to the consumer, I could lock with wholesale on the same day 5.5 for my clients, with a 1.25 YSP so that I could do it for 0 points for my client. My BofA Wholesale Rep said it was because my

overhead as a broker is significantly less than the branch, so even though we both are lending the same money, they need to make far more than I do. You must consider the immense benefit that the YSP availability offers the consumer. I generally make approximately 1.25% on each loan, whether that is from YSP or being charged to the consumer or a combination of both. But, there are some cases, particularly with First Time Buyers, that they have limited cash, but can easily afford the monthly payment. I could offer them 5.0% at 0 points and earn my 1.25 YSP, but the buyer would have to pay all the other closing costs, probably about 4-5K. However, the existing rules allow me to offer them 5.5%, which would only increase a loan of \$200K by \$62 per month, but now the YSP will be increased to about 3.5%. I still earn my 1.25%, but then I credit the remaining 2.25% to the buyers other closing costs which means that they can keep their savings in reserve or spend it on improving their new home. I guarantee that you will create many unintended consequences by eliminated the YSP or changing it to a flat fee. Lenders will stop doing the lower loan amounts (under \$100K) if they have to pay out the same on those amounts that they do on a \$400K loan. This WILL HARM disproportionately the lower income borrowers, mostly the elderly. Closing costs will increase, because zero point loans will decrease. This will push homeownership further out of the reach of many otherwise qualified people because remember low income doesn't mean low quality. It is far safer to lend 100K to someone making 25K per year, than 600K to someone making 150K. Why? Because if the guy making \$25K loses his job, he can easily find another one and can make his payment on minimum wage. \$150K jobs are hard to replace and a payment on \$600K is a tough one to make every month. The 25K income guy can easily make that monthly payment, whether it be rent or mortgage but has difficulty saving up the down payment. This should be no-brainer, but if you want proof of this, look at the performance of the USDA Guaranteed Rural Housing Loans, that have income limits, versus the FHA loans. The low income loans, even at 100% LTV, perform far better and have lower foreclosure rates. A BETTER SOLUTION IS THIS: California requires a Mortgage Broker Compensation Disclosure to be issued to each borrower up front, with the ECOA and Fair Lending Notices. It explains how the YSP works and that the broker may be compensated by the lender or borrower or a combination thereof. It also explains that the higher a YSP is paid, the higher the rate. The Good Faith Estimate requires disclosure of the YSP already. Why not add a Federal Disclosure similar to the CA one to the GFE? Tell all lenders (not just brokers) that they must all disclose to the borrowers how much profit they will make on each loan and then do not allow anyone to make more than they have disclosed, but do not eliminate the YSP and the consumers ability to use those funds in the way that suits them best. Finally, understand that making one flat mandatory fee could cost some borrowers MORE money. Right now, I make 1.25, but many lenders make 2.0%. Consumers who shop and choose me SAVE money. If a flat fee is set at 1.75, then you are forcing me to earn more and depriving me of the opportunity to pass my fair minded savings on to my clients. I have been educating my clients for years and have real life knowledge of how to explain things in plain english. Please, don't spend millions of taxpayer dollars on consultants...ask me, I guarantee that my forms and disclosures work for the consumer and I will give them to my country for FREE!! Backed by 17 years of market research and a 100% satisfaction rating from my clients.