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Comments:

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Proposal: Regulation Z - Truth in Lending - Closed-end Mortgages
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Once again we, as mortgage brokers, are faced with yet another misguided attempt to "fix" the housing system. As most of the fixes in place have all but failed, this one in particular stands to do the most damage to both mortgage professionals and more importantly, the potential buyer/borrower. The Removal of Yield spread premium, (YSP) would cause a number of significant hardships that would result in an outcome exactly opposite of the intended result. Not in any particular order; here are just some of the tragic impacts to the mortgage industry and borrower. First of all, the idea of a flat fee would cause countless problems and would result in a storm of paperwork between the lender and the broker. Compliance on either side would be a logistics nightmare. The unscrupulous broker would simply farm the loan to whichever lender agrees to pay the most fees regardless of the outcome to the borrower. Due to this improper steering, the Fair broker would not be able to compete against other unscrupulous brokers and would sooner than later become extinct leaving few choices to the borrower. Another problem that would arise from this would be the skyrocketing of the brokers liability. To be compliant with all of the proposed fixed agreements and compliance to good faith pricing to the borrower would absolutely result in blizzard of ambulance chasing lawyers looking to victimize brokers by finding minute holes in a very complex paper trail as a result of the flat fee proposal. Additionally, we somehow seem to forget that we are a capitalist society. Under this proposal, less compensation will be paid to brokers due to the flat rate system and lenders choosing not to participate with brokers due to compliance issues. This would result in less competition in the marketplace giving borrowers fewer and fewer outlets to market for best pricing. There are better alternatives. The Federal Reserves stated goal in developing compensation related rules such as this, is "to eradicate incentives to provide consumers' loans with higher interest rates and other less favorable terms". This proposal effectively does the opposite.

As I stated earlier, unscrupulous steering cannot be monitored except through civil law suits. The majority of brokers who operate as a service to their community, will be at risk of substantially increased costs, a thinner and thinner product line, and an inability to compete. Ultimately these small business owners would themselves become victims. The small broker is already required to disclose more information about how they generate their income than any other industry. We, as small brokers are living, breathing, working members of our local communities and remain in business because we are able to offer the best terms and a variety of products to our customers - the very same customers we see at the grocery store, children's sporting events, church, and PTA meetings. The vast majority of our business is comprised of referrals. We are very proud that our past customers can recommend us with the ultimate confidence. We urge you to vote AGAINST the dissolving of YSP and allow our free market system to flourish as was designed by our forefathers. Harsh Government regulations impede small business and works in direct opposite of our free market principals. God Bless America!