From: Charles Ryan Frost

Subject: Reg Z - Truth in Lending

Comments:

To Whom It May Concern:

This letter is from a small business owner and homeowner since the age of 21 and it is intended to address my dissatisfaction of Option A and the elimination of YSP. This rule would take away a great tool that mortgage originators can use in order to assist homeowners in purchasing and refinancing mortgage loans. This argument needs to be addressed in the light of the fact that full disclosure of originator compensation is already in existence. This is not so for banks, credit unions and mortgage lending correspondents.

When borrowers discuss rates with lenders, they ask two very pertinent questions that are costs associated with financing- Closing costs, and interest rates. There is an inverse relationship with the two. A higher rate leads to additional long term interest, but it reduces the costs associated with obtaining the mortgage upfront due to the ability of the originator to receive compensation via indirect compensation from the lender. Each borrower must be analyzed individually taking into consideration expectations of how long the borrower intends to have the mortgage, the borrower's ability to pay closing costs up front, the probability of rates decreasing in the future leading to additional refinance activity.

There are major cutoffs of savings for borrowers attempting to refinance at 95%, 90%, 85%, 80% and 75% loan to value. A great many borrowers are struggling to save as much as possible and if they are close to these cutoffs, it makes sense to take a slightly higher interest rate and save huge amounts on mortgage insurance and Fannie and Freddie sanctioned rate hits based upon FICO score and LTV, by utilizing YSP to compensate their originator and the other entities that are involved in the mortgage origination process. In these cases, saving the several thousand dollars in upfront closing costs can mean the difference in a refinance being feasible or not. If a borrower can achieve a LTV of 80% versus 81% they avoid mortgage insurance altogether. There would be a massive detrimental impact on borrower's options when discussing how to go about obtaining financing with their lender if option A or any other limitations are put on the payment of compensation of originators.

Example #1- Borrower wants to refinance but their loan balance versus their equity does not allow them to refinance due to program restrictions, foregoing huge savings due to the fact that they could not roll closing cost into a loan. With YSP, a slightly higher interest rate could allow the broker to pay the borrower's closing costs. There will be a small increase in the borrower's interest rate, but this is minor when you consider that the borrower would not have been able to refinance without this important tool.

Example #2 - A first time home buyer wants to purchase a short sale or bank owned home. They scramble together enough for a 3.5% down payment, but are unable to save enough to pay their closing costs. The bank selling the property or taking a loss on the home is unwilling to pay sales concessions. With a rate of .25%-.5% higher the borrower could have a zero closing cost loan allowing them to acquire the property. On a $215,000 mortgage the difference in payment between 5 and 5.5% is $66 a month. But taking the higher rate saves the borrower $4,800 in closing cost with a standard 1% origination fee and average Utah title and appraisal costs. The breakeven for the borrower is approximately 6 years out. Many first time homebuyers won't even have their home for 6 years.

I could give you hundred of examples, but let's get back to the level playing field- currently bankers are not required to disclose what they make in the form of indirect compensation, while mortgage broker are required to disclose this income. The Federal Reserve (being a system of oversight that has generally focused on making sure full disclosure is made to consumers) should actually be discussing how to make more tools available to consumers and make all lenders disclose any form of compensation made. Option A is moving in the entirely opposite direction of what is good for our borrowers, bankers and our nation. Competition and options are good and what our free markets are based upon. Taking away mortgage brokers ability to use YSP as a tool to assist borrowers will lead to a dramatic drop off in the number of mortgage brokers in our country and of course less competition.

Please use caution when coming to a decision on how you proceed with the creation of additional rules and restrictions. Our economy and housing market is already battered and bruised. We cannot afford to hogtie consumers with fewer options and less competition when they shop for a mortgage.

Sincerely,

Charles Ryan Frost