

From: Paramount Financial, Inc., Greg Lartilleux
Subject: Reg Z - Truth in Lending

Comments:

Comment on Proposal: Regulation Z - Truth in Lending - Closed-end Mortgages [R-1366]

Dear Sir or Madam,

The Yield Spread Premium (YSP) that mortgage brokers receive from lenders is a very important tool. Banning YSP would be a big mistake and would hurt the end consumers.

Let me show you why with a real example.

You are my client and you have the following mortgage on your home:

- Loan Program: 30-year fixed
- Interest rate: 5.875%
- Current balance: \$410,854
- Monthly payment: \$2,467
- Term remaining: 28 years and 9 months

The YSP, a commission from the lender to the mortgage broker, can be use as a tool so the borrower pays ABSOLUTELY NO CLOSING COST AT ALL. Here's how it works:

I, the mortgage broker, look at my rate sheet from the lender and see that if I give to my client a 30-year fixed mortgage at 5%, I get a YSP of 1.75% of the loan amount.

So what I do is I USE THE YSP TO PAY FOR ALL THE CLOSING COSTS.

Here is what I do for my client:

- Loan Program: 30-year fixed
- Interest rate: 5.00%
- New loan amount: \$410,854
- New Monthly payment: \$2,206
- monthly savings: \$261
- Term remaining: 30 years

And here is the cost of doing this refinance:

- title fees: \$1,250
- lender fees: \$1,000
- broker fees: \$500
- appraisal fee: \$450
- BROKER CREDIT: (\$3,200)
- = Total fees: \$0

See what I do is I use the YSP of 1.75% (or \$7,190) to pay for all the closing costs of \$3,200. I still have some money to pay for my service: my revenue is \$7,190 - \$3,200 = \$3,990

So this is a win-win situation!

Look at the big advantage for you, the borrower:

(1) you can choose to enjoy the \$261 monthly cash-flow savings (but keep in mind that you are extending your term because you had less than 29 years left and now you will have 30 years left)

(2) or better: keep making the monthly payment you are used to make now (\$2,467) on your new mortgage. You will be adding \$261 more to the principal every month. So your loan will be paid off faster. In fact, if you do that, your new loan will be paid off in 23 years and 9 months (instead of the 28 years and 9 months you have remaining on your current loan).

--] That means you will knock off 5 years of payments! That's savings of:
 $\$2,467/\text{month} \times 12 \text{ months} \times 5 \text{ years} = \$148,020$

--] That's right, you will save \$148,020 in interest with this refinance! And you didn't have to pay a penny for it! That's thanks to the YSP. Think about it, I reduce your term by 5 full years and it's free for you to refinance: your loan balance doesn't go up and you don't have to pay a penny ... there is no cost.

SO PLEASE I AM BEGGING YOU, DO NOT GET RID OF YSP. PLEASE ALSO UNDERSTAND THAT YOU NEED THE YSP TO BE A PERCENTAGE OF THE LOAN AMOUNT TO DO THIS (A FLAT FEE WOULD NOT WORK) AND YOU NEED TO HAVE MORE YSP FOR A HIGHER RATE because otherwise you couldn't do something like this for your clients.

As a Certified Mortgage Planning Specialist I use YSP everyday to do true-no-cost refinance for my clients. As you can see above, YSP works.

You can ban YSP on things like "more YSP if the borrower has a prepayment penalty" (this is stupid and hurts the borrower, I agree). But please do not get rid of YSP for the case described above. YOU WILL HURT THE CONSUMERS IF YOU BAN YSP.

Thank you very much for your consideration.

I am available for interviews or more information if you'd like.
All the Best,

Greg Lartilleux
Paramount Financial, Inc.