

From: Jeff Farnham  
Subject: Reg Z - Truth in Lending

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Comments:

In regards to the proposal of eliminating YSP I am writing as a 14 year veteran of the mortgage brokerage industry. I am a small business owner in a small town and employ 13 people. We serve 18 counties and 2 states. Almost on a daily basis I work with new clients and many times within 5 minutes of the application interview they will stop and say "you know my banker never told me that.. I have learned more in 5 minutes with you than I have in all my previous purchases." I tell you this not to brag, rather to let you know that my company and many more across this nation play a vital and professional role in the home buying process. The elimination of YSP as a legitimate and effective means of compensation will mean several things:

1. The elimination of the mortgage broker. It is foolish to think that you can cut ones revenue stream by 1/2 to 2/3's and think that you can keep your doors open. In my case you will put 13 more people out of work and risk 13 more foreclosures. Do the math and extrapolate it for the nation. Not only will my employees be affected but the counties and families we serve will be affected. Appraisers, attorney's, insurance agents, realtors, retail stores, etc will all be affected as fewer homes will be sold due to lack of availability.
2. The cost to the consumer will be increased. As mentioned earlier the elimination of YSP will cut our revenue, yet my expenses will stay the same. In an attempt to survive I will have to raise the upfront costs to the consumer just to try to cover expenses. The costs to the consumer will rise due to the lack of competition. The only source will be for the consumer to go to the local bank who are no doubt driven by the profit motive as are all business'.

It is interesting to note that whether you are a broker or a banker the mortgage transaction is handled the exact same way. Both have to adhere to the same guidelines, neither establishes the guidelines, yet only one, the broker, has to disclose full compensation. We have been doing this for years while the banker tells the consumer that they don't earn YSP. Yet they fail to tell them that they earn SRP. In reality what is the difference? Nothing! Both provide for a lower up front cost to the consumer while allowing the originator to make a fair compensation for the amount of work performed

The workload today is 3 times what it was just a year ago and I am sure as bureaucrats continue to try and fix what they don't understand there will be more paper work. The time to get a loan from application to closing has at the least doubled.

3. In most cases, as is evident by the fact that many bank officers have come to me to get their mortgage, I can offer my client a rate lower than most banks can and still earn a fair YSP of 1-2%. I average 0.25- 0.5% lower in my interest rate than most banks offer in my market. On a \$135,000 loan which is our average that is an annual savings of \$337 to \$675 dollars to the consumer. Over 10 years that is over \$6,000 in savings

The argument has been made that YSP was used to steer consumers into high rate risky loans. I am sure that it did in fact happen. But, not in my shop. We have always tried to place the client in the right product for their needs.

Today, even if you wanted to you could not to place a client into one of these products. They simply don't exist. The mortgage industry has done a fantastic job of policing itself. Check around you could not write a bad loan today even if you wanted to.

All of this additional regulation like HVCC, MDIA has done nothing to improve the process and only has contributed to confusion and higher costs to the consumer and a longer process. Because of today's regulation's it is now prudent to lock the customer in for 45 days rather than 30 just to protect the lock. This practice usually equates to a 0.125% higher rate for the borrower but that is better than having the rate lock expire and being at the mercy of the market. Simply, the consumer does not understand all of these hoops they have to jump through. By the 3rd week many are ready to throw their hands up and say forget it.

The elimination of YSP simply will not do anything to benefit the consumer, but drive the costs to the consumer up. I respectfully ask that you do not implement this action. If you are going to tell the originator how much they can make are you going to tell the attorney as well? What about the realtor or the appraiser? What about the banks?

YSP is not just a compensation for the originator it is also an effective tool to eliminate all or some of the costs for the consumer. In some cases it is prudent for the borrower to take a higher rate, which is usually within a half a point of the rate with an origination fee, and have a lower cash to close requirement. Sometimes the cash to close is the only barrier to home ownership.

Don't eliminate competition. Don't destroy an industry and put hundreds of thousands and perhaps a million more people out of work.

Respectfully submitted,

Jeff Farnham