From: Raven Financial Services, Greg Raven

Subject: Reg Z - Truth in Lending

Comments:

December 14, 2009

To: Federal Reserve Board

From: Gregory K Raven
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Re: Docket No. R-1366

Gentlemen:

I am very concerned about the Proposed Rule revising Regulation Z as it pertains to originator compensation, particularly as respects the elimination of yield spread premium. My understanding is that you are attempting to "protect the consumer" against high interest rates or negative loan terms. The proposed changes, however, will have unintended consequences of limiting the consumer's ability to obtain financing on the terms they desire.

The mortgage broker is a loan consultant to the borrower. The broker has to analyze the borrower's credit, review available programs, determine the appropriate mortgage loan for the customer, process the loan and then get it approved with a lender. The mortgage broker should be able to earn reasonable compensation for his / her services and the borrower should have the option of paying a portion of the broker's compensation plus other settlement charges with a slightly higher monthly payment. The elimination of yield spread premium will cause the mortgage brokers to increase their settlement charges to the borrower.

Most borrowers have two fundamental questions about their mortgage loan: 1) How much cash do I need at closing; and 2) what will my monthly mortgage payment be. With all other factors being equal, to the extent that one goes down, the other goes up. I have given several examples below in which the consumer would be negatively impacted by the proposed change.

· On purchase transactions, many consumers would rather take their available cash and use it for the down payment as opposed to paying settlement charges. They are willing to accept a slightly higher interest rate in exchange for the reduction or elimination of settlement charges. By eliminating yield spread premium, the brokers would charge higher origination fees and would no longer be able to offer an alternative to borrowers.

· Certain borrowers (for both purchase and refinance transactions) need to use their available cash to keep the loan at less than 80% of the value of the property, thus avoiding the need to pay for expensive private mortgage insurance. Once again, a slightly higher interest rate can reduce the amount of cash required for settlement charges and improve the ability of the customer to keep beneath that 80% level.

· There are many existing borrowers who have interest rates that are either higher than the current market and / or are adjustable and the customer wants a fixed rate. By implementing the elimination of yield spread premium many of these borrowers will be unable to refinance to a lower interest rate (and lower payment) due to a lack of cash to pay the increased settlement charges. With a slightly higher interest rate used to offset the settlement charges (paid for with yield spread premium), the customer can still accomplish the refinancing and save money though lower future mortgage payments.

· Another example is the borrower who wants to refinance, but knows that he / she will only be in their house for another couple of years. In these instances, it makes no sense for them to pay high settlement charges to refinance to a lower rate because they will not recoup those costs over the short time period they will remain in the house. They could refinance to a lower rate with the broker accepting yield spread premium in exchange for lower settlement charges.

· This proposed change will also negatively impact borrowers with low loan amounts. These borrowers are typically lower income borrowers with modest cash resources. Currently, the mortgage originator can charge a modest origination fee and make the rest of his commission in yield spread premium, while still giving the customer a low interest rate. Because it takes as much time and effort to do a small loan as a larger one, the mortgage originators will turn away borrowers whose loan sizes are too small to make an acceptable return.

In Mr. Bernanke's statement, reference was made to consumers having "a wider range of mortgage products." That may have been true two years ago, but it is far from true today. Gone are No Doc loans, NINAS's, SISA's, SIVA's, Option ARM's and all of the other "toxic" loans that were in existence in the past. Gone are the radical sub-prime and negative amortization loans which were significant contributors to today's foreclosure problems. Although interest only loans and adjustable rate mortgages still exist, the vast majority of mortgages today are conventional or government fixed rate loans with terms of 30 or 15 years. The mortgage broker or loan originator no longer has the ability to "steer" consumers to transactions that are not in their interest to increase the mortgage broker's or loan officer's compensation.

The proposed changes will hurt the consumer. The consumer currently has the option to pay higher settlement charges at closing with a lower interest rate or lower settlement charges at closing with a slightly higher interest rate. The proposed rule change would take that option / flexibility away from the consumer. The RESPA changes scheduled to take place on January 1 will effectively allow a customer to shop for the best mortgage to meet their individual needs -- both rate and settlement charge. In fact, the Tradeoff Table on page 3 of the new Good Faith Estimate was designed specifically for this purpose - to allow a consumer to see the impact on the monthly mortgage payment of increasing / decreasing settlement charges or increasing / decreasing the interest rate.

The real estate market has been in trouble for more than two years. All lenders have tightened their underwriting requirements. The underwriting engines (Desktop Underwriter and Loan Prospector) have significantly tightened their models for obtaining loan approval. Now, the Federal Reserve is thinking about mandating how a borrower should pay his mortgage consultant. I believe that implementing these changes will cause further deterioration in an already horrible situation. The elimination of yield spread premium would result in every customer getting a "one size fits all" loan.

These changes are also a direct attack on mortgage brokers. Because lenders are not required to disclose yield spread premium, they will not be impacted.
I strongly urge you not to take away the option that the consumer currently has. It will negatively impact the consumers more than it will help.

Gregory K Raven
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