From: Bob Bednar

Subject: Reg Z - Truth in Lending

Comments:

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Ms.Jennifer Johnson, Secretary to the Board of Governors of the Federal Reserve System 20th Street and Constitution Avenue, NW Washington, DC 20511 Re: Proposed Changes to Reg. Z Closed-End Mortgage Rules (Docket No. R-1366) Dear Ms. Johnson, My name is Bob Bednar. Since 1989, I have been a loan originator. Over those twenty years, this is only the second time I've communicated to officials in government regarding changes in my Industry. That first letter was written almost four years ago (February 2006). I wrote it to every Congressman in Illinois asking that the Option ARM Mortgage and any Mortgage product with pre-payment penalties be outlawed. At that time, the Option ARM Mortgage was all the rage. In most markets, it represented ½ of all Mortgage originations - with the bulk of it directed at first time homeowners. I had been working for Chase Bank at that time. Chase had always been steady and consistent, but after the merger with Bank One, everything changed. In 2005, Chase hired approximately 100 sub-prime loan originators to serve the Chicago market, and the A side loan originators that typically originated Fannie Mae, Freddie Mac, and FHA loans, were being heavily pressured to supply the sub-prime originators as many leads as possible. In just over two years, I only forwarded four leads to the sub-prime group. They were the only four clients that I felt had the tools and enough of the 5 C's of credit to warrant consideration. Imagine my surprise a few months later when I picked up a copy of the September 11, 2006 edition of Newsweek and read their cover story "How Toxic Is Your Mortgage?" As far as my letter to the Illinois Congressmen just a few months earlier, I only received one response, and it was a form letter that thanked me for my letter. Because of the sub-prime craze, loan origination became an attractive career path. These new originators didn't possess the tools, the education, or the experience to gauge a client's credit worthiness. They also lacked the fortitude to educate the client on the responsibilities of home ownership. The damage done by these ill equipped robbers to the Millions of homeowners that were sold inappropriate loan products will affect our nation for decades, and the homeowners and their families that were involved will be affected for the rest of their lives. Most of those bad originators are now out of the business. They didn't develop a long list of satisfied clients that would call them back when Interest Rates dropped, or when they were making a change in their housing needs. These bad originators were used to taking sloppy loan applications that didn't require a review of paystubs, or tax returns, or W2's, or Bank statements, or credit reports. Automated loan origination and underwriting systems will never replace loan originators. Someone with knowledge and expertise will be needed to advise clients on their options and help them make appropriate recommendations. In my 20 years of doing loan origination, I've never had two clients (or two loan applications) that could be treated exactly the same. At least 60% of all the Mortgage Brokers in Illinois have already been forced out of the Industry, and similar statistics are happening in the other 49 states. Many were newer loan originators that were gouging homeowners with sub-prime Mortgages, but the majority of Mortgage Brokers that have left the Industry were serving their clients to the best of their abilities. The unemployment of originators, loan processors, and other support staffs is already staggering. And as the big Banks continue cutting off warehouse lines of credit, they only make the problem worse. The assembly line Mortgage process at the big Banks will eventually fail. When the loan processing times at Chase reached 75 days, Chase raised its loan origination fee from $395.00 to $750.00 - and the loan originators receive zero from the application fee. Since Chase management couldn't staff properly, they made their own clients suffer and pay for it. And no one has questioned it. I have a client right now with two multiple unit Investment properties, a primary residence, and a vacation home. He was told by a Chase loan originator that they are no longer doing Mortgages on two to four flat properties. Amazingly, the existing loan that the customer wants to refinance is currently serviced by Chase. The big Banks will set themselves up so they can "cherry pick" the deals that require minimal amounts of work but provide maximum amounts of profit and markup. They will expect the smaller players in the Mortgage Industry to do the heavy lifting on the more complex transactions. Look at what the big Banks are doing with Credit cards. They borrow $$$ overnight at the Fed window at ¼% Interest (or less)and then charge 29.95% to clients that have never had a late payment. There's a shortage of experienced well-qualified loan originators right now. Limiting loan origination compensation simply plays right into the hands of the big Banks. It gives them even more control over the Mortgage Industry. Many of my customers have complex circumstances that make processing their loan applications time consuming and difficult. I recently had a customer with five different sources of income. Many loans need greater attention to detail to make sure that the application process goes smoothly. The big Banks approach and focus on Volume and Productivity only will result in a "one size fits all" which will hurt consumers in the short and long runs. The proposed rule will prevent the majority of employers in the Industry from paying adequate compensation to qualified experienced individuals. Instead, we will migrate away from the five C's of credit and toward a labor analysis that restricts many homeowners from adequate and appropriate credit access. Imagine the additional damage that will be done to small business owners that are self employed. They have complex lengthy tax returns where they often personally own the business space, but the business rents it back from them so they can depreciate it. It's conceivable that limiting loan originator compensation could recreate new redlining situations. In most Metropolitan markets, we have entire neighborhoods where the average Mortgage loan size is small, but because the average income in those areas is also below average, the homeowners have higher than normal Loan-To-Value's and higher housing and debt ratios. Those neighborhoods will certainly be less served unless appropriate compensation is available for the extra work to get them approved. In other words, if a loan originator would make $1,000.00 (1 point) on a typical $100,000 loan that needs 10 hours of work to complete and close, is it reasonable to expect the same loan originator to work 15 to 20 hours a piece on two real tough $50,000 loans at the same compensation rate (1 point), and only make $500.00 a loan? I would be one of the first to loudly proclaim that additional consumer protections in many areas of finance are needed, but limiting loan origination compensation will make most of the problems bigger. In hundreds of situations over the last twenty years, I was probably the only financially educated individual my clients had ever dealt with in their lives. I would like to continue doing what I do best. I'm not interested in looking for another career or becoming unemployed. I appreciate the opportunity to comment on the proposed rule amending closed-end mortgages. I hope this second letter to officials in government has a better effect than the first one did. Thank you. Very Truly Yours, Bob Bednar - XXXX #XXXXX