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Subject: Reg Z - Truth in Lending

Comments:

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Proposal: Regulation Z - Truth in Lending - Closed-end Mortgages
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Comments:

I am commenting about the Federal Reserve Boards two proposals summarized below. 1. Prohibit payments to a mortgage broker or a loan officer that are based on the loan's interest rate or other terms; and 2. Prohibit a mortgage broker or loan officer from "steering" consumers to transactions that are not in their interest in order to increase the mortgage broker's or loan officer's compensation. As a mortgage broker I use lender payments/yield spread premiums to reduce my clients' closing costs. About 90% of my customers, regardless of their loan size, choose loan terms that have no origination fees or discount points. As a business person I must be able to price my services based on the anticipated time and resources a new loan will take. In theory an $80,000 loan should take the same time to process as a $400,000 loan. But as a practical matter the smaller loan is often more time consuming because it is more likely than larger loans to be associated with a less experienced homeowner or home buyer. By less experienced I mean someone who may not have developed the credit qualifications to meet the constantly increasing risked adverse lending guidelines. This can involve working with a client over several months or a year instead of a few weeks for a more season buyer or owner. Under the board's proposal the only way I could create some parity to the higher loan amount would be increase the lower loan amount borrower's origination fees. But as would be expected the lower loan amount clients are the ones who have the least resources. Allowing brokers to make an upward adjustment to the interest rate will help more first and second time homebuyer/homeowners. Since the proposals one and two are linked by the word "and" it would appear that the board feels that yield spread premiums (payments to brokers based on the loan's interest rate) are entirely or substantially responsible some consumer's inability to select a loan type that is in their best interest. The Board's concern about steering will not be solved by restricting lender payments to brokers. An examination delinquent borrowers who felt they were "steered" will show they were more influenced by their new monthly payments than any other factor. An adjustable rate mortgage is one of the few products that may reduce payments compared to the more conservative 30 year fixed rate loan. However the YSP on ARMs is significantly less than on a fixed rate product. Mortgage investors realize that providing high YSP on ARMS reduces the borrower's closing costs and creates a disincentive for borrow to keep the loan long enough for the investor to earn a satisfactory yield. If higher fees on an ARM are not available then the rate on the fixed product would need to be increased to increase lender payments. This would result in a substantially higher monthly payment and therefore not be attractive to the "steered" borrower. I have only indentified two of the many unintended consequences of restricting lender payments to brokers. The other point I would like to make is that changes in other federal regulations and the market have made any possible abuse of YSP to brokers mute. RESPA's new GFE rules require brokers to commit to their gross compensation prior to receiving a commitment from the borrower. Any yield spread or lender payments are passed through to the borrower to reduce their costs. Sub-prime, Negative Amortization, and Pre-payment loans are gone. In summary I feel I've shown that: Restricting lender payments will increase costs for the borrowers the proposal seeks to protect. Lender payments do not have a role in steering a borrower to a less favorable product. New legislation requires all lender payments to be used to reduce a borrower's closing costs. Thank you for this opportunity to comment on such a critical topic that could negatively impact the survival of so many small businesses.