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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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Proposed: The Federal Reserve Board should reject R-1366 because 1) it would not be a benefit as alleged to consumers, 2) it will devastate the home loan brokerage community, and 3) it will allow a small number of banks to monopolize the home loan market. While the Board has shown great leadership in guiding the US economy through this recession, the proposed regulation will greatly slow the recovery and have a lasting negative impact on consumers. Regulation Z - Truth in Lending - Closed-end Mortgages [R-1366] "Proposed amendments that would revise Closed-end mortgage disclosures to highlight potentially risky features such as adjustable rates, prepayment penalties, and negative amortization and prevent mortgage loan originators from "steering" consumers to more expensive loans." Not a benefit to consumers First, although commendable, the Board wishes to protect consumers from certain loans the Board deems "risky." But would that really solve the delinquency problem? Margaret Chadbourn of Bloomberg (June 30, 2009) writes, "Delinquency rates on the least-risky mortgages more than doubled in the first quarter from a year earlier as U.S. efforts to help homeowners failed to keep pace with job losses that pushed more borrowers toward foreclosure." In other words, while considerable time and energy is expended on this regulation, the real culprit is unemployment. What if consumers don't want a 30-year fixed loan? Consumers may not be interested in a 30-year fixed mortgage for many reasons, for example, they plan to sell and move in a short period of time, or plan to transfer to another part of the country. By degrading adjustable rate home loans, the Board will actually encourage consumers to opt for a one-size-fits-all loan, which is more expensive than the adjustable, carries a higher interest rate, a higher monthly payment and will leave the consumer with less money at the end of each and every month. If the Board's target is to protect the consumer,
their arrow falls far from the mark. Should adjustable rate loans be

recommended? Yes. Without the benefit of adjustable loans, many consumers could not otherwise afford their homes. Rick Brooks and Ruth Simon of the Wall Street Journal (December 3, 2007) write: "Fremont [General Corp] bank said that without access to its loans -- often requiring a lower standard of proof of income, assets and credit history than traditional lenders -- "many Massachusetts residents who are homeowners today would never have been able to purchase homes." It will devastate the home loan brokerage community If the regulation passes, brokers will lose their incentive to remain in the industry and consumers will lose an important tool in their bid to get competitive home loans. Will the banks step in and fill the vacuum created by the proposed absence of home loan brokers? Janet Wickell for About.com (A part of the New York Times) writes, "Mortgage brokers can often find a lender who will make loans
that a bank refuses--problem credit is one example. Loans for unique or commercial properties might be easier to secure through a mortgage broker." The regulation is silent as to where consumers might go when the Bank says, "your loan was declined." Yield Spread Premium The small print of the regulation also provided for the prohibition of the Yield Spread Premium. Brokers are usually paid a percentage of the loan amount for acquiring a loan for their client. The regulation would do away with this. Instead, lenders would likely pay the broker a flat fee, which would be disclosed to the consumer. Is this really necessary? The argument appears to be: "Well, consumers have a right to know, in a transaction this important, how much everyone is making. " Is seeing your banker important? How much does your banker make on your investment account? How much does your grocer make on a sale of a loaf of bread? How much does your day care center make each month when they watch your
child? Just because the government mandates disclosure of brokerage industry earnings doesn't make it equitable. And why some should disclose, but not others, adds fuel to the fire. The Board, by promulgating the regulation, is holding all home loan brokers accountable when the driving force for these "risky" mortgage backed securities was Wall Street. Michael Hirsh of Newsweek (September 17, 2008) writes: "Jim Rokakis, the treasurer of Cuyahoga County in Ohio, one of a slew of state-level officials who saw the mess coming years ago but were ignored by the Feds. 'If you arrest the mortgage brokers, how can you in good conscience not arrest the officers of the mortgage banks and the rating agencies?' Rokakis wonders. Ultimately, a big share of the blame lies with Wall Street CEOs who encouraged all this bad lending by packaging it into ever more complex securities, and then invested in it themselves by the billions." The Board is sacrificing the home loan rigination industry and
letting Wall Street get by without even so much as a wrist slap. It will allow a small number of banks to monopolize the home loan market AP Business Writer Daniel Wagner (Friday March 27, 2009) writes about derivatives, but his argument parallels the bank's role in home loans, " A handful of banks that needed government bailouts after making disastrous bets on over-the-counter derivatives are now seeking monopoly control over dealing in that market. The seven banks making the play for control are Deutsche Bank AG, Barclays, JPMorgan Chase & Co., Goldman Sachs Group Inc., Credit Suisse Group, Morgan Stanley and Citigroup Inc. Together, they''ve received more than $125 billion in bailout money. Some of that money came to them from the bailout given to failed insurance giant American International Group Inc. Limiting competition this way could harm the broader economy, some say. 'Less participation has always been bad and always will be bad,' because big commercial companies often stabilize speculator-driven price swings by selling derivatives, said James Cordier, president of the derivatives seller Liberty Trading group. The change 'is going to cause prices to fluctuate at levels that are not justified by

supply and demand,' he said. Former Comptroller of the Currency Eugene A. Ludwig warned against cutting out nonbank dealers because 'a lot of innovation comes from smaller enterprises, and there''s a place for everybody' under effective regulation. In conclusion, while the Board's motivation for Regulation Z, R-1366 was to protect consumers, it would not be a benefit as alleged, it will devastate the home loan brokerage community, and it will allow a small number of banks to monopolize the home loan market. Regulation Z R-1366 should be rejected. Peter L Glenister Golden Future Real Estate