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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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Regarding: Regulation Z; Docket No. R-1366 Truth in Lending - Request for public comment Dear Sir/Madam, I am a Loan Processor for a mortgage company. For the last 7 years, I have been involved in the loan business, first as a Loan Officer and now a Loan Processor. My main concern is how your proposal for Originator's compensation will affect not only mine and other loan officer's personal income but also how it will harm the entire mortgage and Real Estate industry. As a Processor, I am paid a flat fee per file that funds, but I am concerned that competent Loan Officers will leave the industry due to these proposed changes thereby reducing the number of loans being funded and definitely worsening the level of service to the consumer. If the Fed believes that there are currently problems with loan officer competence and issues with borrowers obtaining loans - wait until most of the competent, professional loan officers leave this industry to a profession where the government isn' t controlling their income. 1. Not particularly specific to this Docket I feel the need to express my concerns that our government should quit over-regulating private business and quit trying to replace capitalism with nanny-like socialism. The government is currently making an over-kill with this proposed legislation of the loan industry. Our recent housing melt-down was brought about by people such as Barney Frank and Christopher Dodd from our congress forcing the total relaxation of sensible, yet strict underwriting guidelines so that "everyone can own a home". If normal, sensible underwriting would have remained enforced, from Fannie Mae down to bank underwriting, we would not be in the financial situation we are currently in as a nation (and globally for that matter). And no doubt there would not be a need for these proposed, sweeping changes. Now as a "solution" we have pendulum swing the other way to a point whereby it is taking well over 40 - 60 days to complete a loan.
We have disclosure after disclosure after TIL, after Mortgage Broker Fee Agreements which discloses the YSP, followed by GFE's which discloses the YSP

and Mortgage Loan Disclosure Statement (3 pages of fees and disclosures) which discloses the YSP, followed by the final MBFA, GFE, TIL, etc etc. If anything changes in fees we have another 3 to 5 days of delays to re-disclose the change. All of these latest forms, disclosures and red-tape, delay the home buying process and the person suffering mainly is the borrower; often resulting in a Per Diem interest charge to the borrower and overwhelming him with red-tape. Further, the underwriting guidelines have recently gotten so strict it is to a point where it is extremely difficult for a person to get a loan. The banks are so afraid that Fannie Mae or Freddie Mac will force them to buy back a "bad loan" that they often will turn down good loans. Again, this is an over-reaction to the earlier relaxation of lending guidelines instigated by Frank and Dodd. 2. It appears that the Fed feels the main reason for these proposed drastic changes in originator compensation is that the "apparently stupid" consumer doesn't understand the concept of a Yield Spread Premiums and so are being "ripped off". I have a solution to this - produce ONE well written disclosure that simply explains what a YSP is and also discloses this figure to the borrower. Various banks require a Mortgage Broker Fee Agreement that describes what a YSP is and the YSP amount is clearly disclosed to the borrower. It really cannot be simpler to understand. This disclosure would simply explain how YSP affects the interest rate that a borrower pays. It should be disclosed along with the GFE so it is understood from the very beginning of the loan process. Once the loan is locked, the YSP would have to be disclosed along with a rate lock disclosure. The concept of YSP is really not that difficult to understand and anyone who is buying a home should have the intelligence to grasp this concept if it is properly explained in a well-written disclosure. 3. Many borrowers prefer to refinance their homes without having to increase their principle by rolling fees into the loan. At the moment a borrower may request from a Loan Officer that they want to refinance their home but not pay a single point or any fees and not increase their principle. This means that the Loan Officer can make the interest rate high enough so that a portion of the YSP that the L.O. would receive from the bank, would cover the borrower's closing costs (the L.O. would give a credit to the borrower to cover the closing costs). I have done many of these loans in the past. The borrower doesn't increase his principle, doesn't bring in any money to close and yet after the refinance, pays a lower interest rate resulting in a lower monthly mortgage payment. Without the loan officer receiving a YSP the borrower would have to roll the fes into the loan and increase
his principle balance or bring in cash to close the refinance. To many borrowers, this is unacceptable. 4. Many potential home-buyers are not able to pay points and the costs involved in buying a home. Without a credit from the broker many borrowers would not be able to have the available finances to buy a home. This is the same concept as (3) above - using the YSP that the Loan Officer receives from the bank, to give the home-buyer a credit. 5. I strongly feel that if you stop the loan officer from receiving a YSP from the bank - you will put tens of thousands of small mortgage brokers out of business. Brokers perform a vital role to the consumer. Brokers work weekends and after hours and can close a loan much faster than a bank and provide far better service to the consumer. This proposed law will narrow competition which is bad for the consumer. With less competition, the consumer will suffer with higher interest rates and higher fees. If brokers are eliminated, mortgage lending would end up in the hands of B of A, Wells Fargo and Chase with incompetent, unmotivated loan personnel as the consumer's only choice. 6. Finally, I feel that this proposed policy of regulating a Loan Officer's compensation would be similar to regulating a car salesman's or copier salesman's compensation or any salesman for that matter. It would cripple businesses

and ultimately our economy. Currently if a car salesman sells a car for a higher price he would get paid a higher commission. This motivates the salesman to make higher profits on the car he sells thereby making the dealership more profitable. This concept goes back to the earliest, most primitive forms of business. Sure, it is unfair when I bought a car 3 years ago and then found out in reading the newspaper the following day that I could have paid $1,000 less. Or that a special was running the following week. But, it happens all of the time and it is a part of buying and selling anything.
But in
reflection; I got a car I was happy with at a price I was happy with so more power to the salesman that got a spiff from the manufacturer or the dealership's rebate. Also, a car dealership often receives rebates from the manufacturer which isn't disclosed to the consumer when they buy a car and actually I am glad they receive it (similar to a YSP actually). I personally do not understand how their rebates work or how big they are from the manufacturer to the dealer and I also do not care or think about it when I buy a car. Your reasoning for preventing Loan Officers from getting YSP from the banks makes it appear as if Loan Officers are causing harm to the consumer. They are merely trying to make a living. It is capitalism. If they charge a higher interest rate so that they can earn a higher fee from the bank; more power to them. This should not be regulated and if the government starts to regulate an occupation which currently averages an income of approximately 30 - $50,000 per annum (at best, probably more like 20 - 30,000 per annum due to the current, over-regulated, state of the mortgage industry) what can we expect in the future? Will we all be buying the same car at the exact same price, perhaps a government issued vehicle so it is fair to everyone? Should food prices be regulated as I am sure some people pay far too much at some grocery stores and are not smart enough to cut coupons or shop around? Again, my solution would be a well written explanation in the form of a disclosure to the borrower which CLEARLY explains how YSP works. This disclosure must be signed within 3 days of signing the loan application. A clear disclosure such as this along with the APR would eliminate the need to regulate loan officer income. The consumer would be able to shop for the best rate and lowest costs, with confidence. And of course, leave the system the way it is and the way it has been working for decades and keep congress out of private business and from trying to destroy yet another industry.