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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:

1. Prohibition of yield spread premiums to loan originators This would create an increase in costs for each loan directly to the borrower. The YSP is similar to the mark up for items that a person purchases at the grocery store. If a grocer purchases a gallon of milk for \$1.00 - there is no way that he can sell that same item without marking it up in order to pay his employees, cover utilities, rent and other operating costs plus make a profit so he can continue to stay in business. In the mortgage industry it is typical to charge a 1% origination fee directly to the borrower and receive a mark up on the rate that is offered by the end investor in the form of YSP. The combination of these two items is what pays the lender, loan officer, employees, rent, utilities, required audits and the whole myriad of operating expenses, which is increasing on a daily basis. It is impossible to cover all these expenses on a 1% loan origination fee let alone make any kind of a profit. In reality, every lender would be in the red if they had to live off the 1% loan origination fee. To cut out the YSP is going to cause lenders to go out of business, cutting the competition the borrower has to choose from & creating higher costs for the borrower. If the YSP is cut, the lender will have to charge higher fees on the front end to the borrower in order to cover the costs to run a company. In many cases the YSP is also used to help the borrower refinance or purchase a home that would otherwise not have been available to that borrower due to lack of sufficient equity in the home to refinance or lack of sufficient funds to pay closing costs in order to purchase a home. The additional yield spread allowed for the lender to cover the closing costs in both situations and allow for the refinance or purchase to happen. In addition, this will cause an unlevel playing field between small mortgage operations and large banks. What will happen in the near future is that only large banks, the number of these which is dwindling by the day, will be the only entities

providing mortgages to the public. This will create a monopoly in the mortgage industry and banks will increase rates to make more money & slowing the economy even more. This is NOT increasing competition. It is decreasing competition, lessening the options that are available to the consumer, reducing the quality of service provided to the public and causing the consumer to pay higher rates and fees. Only large banks have the ability of paying salaries to loan originators. All of these new changes and requirements will obviously increase the cost of doing business by everyone, therefore increase the cost of obtaining a mortgage. Do you think that when there are increased costs of doing business that the mortgage company or the bank just eats that increase? No way! It is passed on to the end consumer just like the cost of the gallon of milk. The amount and way of compensation to the lender &/or loan officer should not be dictated by anyone other than the company the loan officer works for and the loan officer. The loan amount should NOT be considered a term or condition of the loan. The loan officer should continue to get paid based on a percentage of the loan amount and that percentage should not be regulated. What is happening to the free enterprise system that his country was built on? I agree that the loan originator should be prohibited from steering a borrower into a transaction to receive greater compensation. To bad this wasn't around several years ago.

2. Require the use of additional disclosures We have added a minimum of 5 new disclosures just over the past 3-4 years in Colorado. Do I think the consumer is even more informed or even really cares? NO. About 7-8 years ago I created a one page disclosure for my clients explaining the payment changes based on a worst case scenario at each rate change and maximum for adjustable rate loans. Did they make a different decision? No. The consumer has always received a disclosure explaining how their loan is structured. These disclosures range from 1-5 pages. I don't think any of them ever read it although it was explained in detail at loan application. Now you are wanting to add even more disclosures. We can increase our disclosure package by 100 new disclosures and it will not make a difference. The consumer still needs to take the responsibility of reading these and taking responsibility for their own actions. What we need to do is KEEP IT SIMPLE!!! Sometimes less is more. Less disclosure but more concise information about the loans and their terms is what needs to happen. There are so many disclosures now that their eyes glaze over by the time we are done explaining each disclosure they are signing. The 3 business day disclosure for early TILA has been a rule for as long as I have been in this business so that should not be a shock to anyone's system if they have been operating properly. The redisclosure if the APR is 1/8% different (interpretation of this is different by every lender and most have required redisclosure for either direction) in most cases is not an issue if the loan officer has properly disclosed the costs on the good faith estimate. What this has done is required the borrower to lock the rate a minimum of 10-15 days prior to closing so that new disclosures can be issued in time for closing. This has reduced the borrowers options of taking advantage of possibly lower rates just prior to closing unless they are willing to delay their closing. In the case of a purchase, delaying a closing is not an option so the borrowers flexibility has been taken away. The requirement to provide the final TILA 3 business days prior to closing whether there have been changes or not is ludicrous. Since we are redisclosing the early TILA whenever there are changes made and the borrower must have had them a minimum of 3 business days prior to closing, this seems a redundant practice to require the final TILA 3 business days prior to closing as well. The borrower has no control over this and this could impact to borrower's ability to close within the time limits allowed. This could cause the rate lock to be lost or the contract to fall if the the closing date is postponed due to this

requirement. This would cause hardship for the borrower. If there are changes to the loan terms or the APR is 1/8% higher (fixed) then a new TILA should have already been provided a minimum of 3 days prior to closing but it should not have to be the final TILA unless this exceeds the 1/8% tolerance. Disclosures required after consummation - ARM adjustment changes are currently provided between 15-45 days before payment at the new level. The time period of 60 days prior is not going to make a real difference to the consumer. However, I assume it will make a huge difference to the servicing lender as there will need to be software changes to their systems to accommodate the 60 days period prior to change. This is a change that is not going to help the consumer in any way. I believe the majority of lenders that provided negatively amortized loans provide statements that contain all the different payment options. Most borrowers will still make the lowest payment possible. I believe this is a mute point as it is already being done and the only borrowers that will look at this are the ones that will actually make a payment other than the minimum required, which is the small minority of borrowers. Lenders should be required to provide notice of the cost of coverage of lender arranged property insurance at least 45 days before the imposed charge & provide evidence of insurance within 15 days of imposing a charge. They should also be required to provide a phone # where the borrower can call and actually reach a person (instead of voicemail jail) to have this corrected when this has erroneously been charged to the customer. Modification of finance charge/APR - The only items that should be included in the finance charge are the items that are the costs of the lender and not third party charges. The third party charges such as title examination are out of the control of the lender and vary from title company to title company so can cause the costs to be overstated or understated and possible redisclosure. The items that should be included in the APR are lender fees that are being paid by the borrower such as loan origination, processing, underwriting, administration, borrower paid discount points, express mail, mortgage insurance, interest. Fees that should NOT be included are fees that are paid to a 3rd party in order to meet the requirements of the loan approval, closing and purchase by the investor. These fees are for document preparation & closing/settlement, appraisal, credit report, flood certification, MERS, employment, income & deposit verifications, title examination &/or policy & forms, recordings of any item, surveys, any seller paid fees and points, property insurance, etc. Anything that is paid to a 3rd party. Borrowers do not understand the APR as it is. Putting it in a larger font is not going to make a difference. Since they do not understand the APR they certainly are not going to understand HOEPA average prime offer rate. This is only going to confuse them even more. AGAIN, KEEP IT SIMPLE! LESS IS MORE. Adjustable rate disclosure - Providing the table of examples is over kill again. The consumer is only interested as it directly relates to them and their loan not a bizarre example of a \$10,000 loan. Disclosing the rate & payment at consummation & changes to payment at first adjustment & highest possible is a good idea, within the existing disclosures. Including taxes and property insurance in this part of the disclosure is a mistake. Lenders cannot predict the increase or decrease in taxes and insurance. A simple statement that the monthly taxes and insurance will be in addition to these estimated payments is sufficient. The additional disclosure referencing a table is just another disclosure reiterating the information that is provided in the Good Faith, TILA and loan product disclosure. Why do we have to have another disclosure that says the same thing. We need to combine disclosures & lessen the paperwork, keep the wording simple, put all items into ONE disclosure instead of dissecting each disclosure to create another disclosure.