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Subject: Reg Z - Truth in Lending

Comments:

Date: Sep 22, 2009

Proposal: Regulation Z - Truth in Lending - Closed-end Mortgages
Document ID: R-1366
Document Version: 1
Release Date: 07/23/2009
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Comments:
There is a patently negative bias in much of the recently proposed and recently passed legislation against the smaller players in the financial services industry; seemingly in spite of the fact that small companies like ours employ a significant number of people. As I read it, this proposal will eliminate companies like ours (which number in the 10''s of thousands nationally), actually decrease competition in the residential mortgage market and increase unemployment. In the end, whether a consumer uses a small mortgage brokerage company or a large national bank, the end-resulting mortgage typically gets sold on Wall St as a mortgage-backed security. The price these securities will fetch is driven largely by the free market; certainly small companies like ours have no influence on the end pricing of the security. It is on this playing field that we must compete against the big-players in the market, such as Wells Fargo or Bank of America. (Side Note: small companies have had to fend for themselves through the financial crisis. We did not get any bail-out money) The big-players, using financial assistance provided by the taxpayer,are allowed to collect service release premium ("SRP") upon the sale a mortgage loan they have originated or purchased. Call it what you will, but there is little difference between SRP and yield-spread premium ("YSP"). In the end, it is a payment back to a loan-originating source that is dependent on the loan pricing. Practically every good that comes to market does so through a supply channel consisting of wholesalers and retailers. Small mortgage brokerage companies must obtain wholesale sources for mortgage fundings and compete against other retail mortgage outlets, again such as BoA & Wells Fargo. While many companies like ours pride ourselves on the excellent service we seek to provide our clients, we must also provide a competitive price. It is largely through the efficiencies that smaller companies achieve (i.e. less overhead, flexibility, fewer levels of management) that we can be competitive with larger companies. The ability to compete with an inherently smaller cost structure was perhaps the single biggest impetus in the early growth of

mortgage brokerage companies in the US.   Unfortunately, perhaps the second biggest factor driving the growth of mortgage brokerage companies was the proliferation of so-called "sub-prime" mortgage products. Almost anybody who could hang out a shingle got into the mortgage brokerage business as this picked up steam. The number of mortage brokers would more than double over a two-year period; while the professionalism of those joining the market would decline proportionally. The dam break driving the creation of these new sub-prime shops was the hunger for sub-prime collateralized mortgage obligations ("CMO") on Wall Street. What created that hunger? The exorbitant fees the "investment bankers" were enjoying packaging & selling this crap to gullible investors. Thanks to firms like Goldman Sachs blessing these CMO''s with their AAA investment rating, they could sell anything. Mortgage-backed securities suffered a degradation of quality over this period that was unbeknownst to the investor. Companies like Goldman Sachs or Merrill Lynch, who were guarantying these offerings, understated the risk to their investors for a sizeable fee. Even as CMO''s, which at one time consisted of 3% sub-prime mortgages or less, flip-flopped to 90%+ sub-prime backed. This is where the government should be focusing their efforts. Instead the focus seems to be at the opposite end of the supply chain.   Once Wall St couldn''t sell these things anymore, guess what happened? Most of the sub-prime wholesalers and mortgage brokerage shops went out of business. Was that because the unscrupulous people selling these products got religion? No, it was because Wall St''s greed caught up with them. Wall St Investment Bankers single-handedly collapsed the Mortgage-Backed Securities Market ... period. Incidentally, many of the folks who brought you fraud-laced sub-prime mortgages can now be found in the Loan Modification business; a current growth industry apparently. It is an awful shame that the mortgage brokerage industry is cast as the scapegoat in this debacle. Many of the people left standing in our industry are the good people who were here prior to the sub-prime mortgage proliferation. Most of our companies business comes from former clients we have assisted. You do not get repeat business by taking advantage of your customers. Perhaps the saddest irony is that the companies who will stand to gain from this legislation are the very same big-players our tax dollars helped bail out (Wells Fargo, BoA, etc.). This single bill could wipe out the entire mortgage brokerage business. In the end, will that better protect American consumers? Will that create more competition in the mortgage marketplace? Will taking away no-closing cost lons help the consumer? Will 25 more pages of definitions ans explanations in the current mortgage package help? I don''t think so. Congress is chasing squirrels when they should be hunting bear.