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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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Federal Reserve Board, I am writing to express my opposition to the proposed changes to Regulation Z under R-1366. Simply stated, the proposed elimination of Yield Spread Premium (YSP) will create a lending monopoly for the mortgage banks by eliminating the competition which mortgage brokers provide. As with any monopoly, the result to the consumer will be higher rates, higher costs, less selection, and less recourse. Because Allied Home Mortgage Capital Corporation is both a mortgage banker and mortgage broker, I get to service the public through both avenues. Although they occupy different levels in the same distribution chain, mortgage bankers and mortgage brokers receive their income in essentially the same manner. Both sell a loan to the consumer and are compensated by either charging the consumer a fee, or receiving a fee when placing/selling the loan further up the distribution chain, or both. Yet, because the mortgage banker is lender its own funds, it is exempt from disclosing any of this to the consumer, while the mortgage broker is required to disclose all of it. If the goal is protecting the consumer through transparency, then why is this the case? I submit to you that mortgage brokers came into existence and remain in existence because they fill a vital need in the market. They create more competition among the mortgage banks for each consumer mortgage loan. The result of this competition is lower rates, lower fees, larger product selection, and increased recourse. Mortgage brokers also provide a sales force to the mortgage banking community at no cost or risk. Simply stated, mortgage brokers add significant value to the mortgage loan process for both the consumer and the mortgage banking community. Eliminating YSP will eliminate mortgage brokers. Many of those working at mortgage brokerages will leave the field. Many others will migrate over and end up working for the mortgage banks. In the end, the mortgage banks will benefit at the expense of the consumer. If your sincere goal at the Federal Reserve is to protect the consumer, eliminating YSP and brokers will not accomplish it. To accomplish that goal, the process should be equally transparent regardless of

where a consumer obtains their mortgage loan. And those companies and individuals who violate the law should be prosecuted and removed from the process. Sincerely, Michael Farren