From: Phillip C Hilton

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:
Docket Number: R-1366 I have been an originator and manager in the mortgage business for nearly 10 years. During that time I have worked with large, bank-affiliated lenders as well as correspondent lenders. I am concerned with the proposed changes that would limit methods of compensation to brokers and lenders. As may or may not be known, most bank-affiliated originators largely operate under rules similar to this. The secondary marketing department within the mortgage company issues a rate-sheet that basically tells the originator that X rate requires Y points and X + .25 rate requires Y + 1 point and so forth. The originator quotes those rates and is paid a set number of basis points on the loan. Mortgage brokers and correspondent lenders generally receive a rate-sheet that shows actual prices for the rates offered as well as separate Service Release Premium (SRP) schedules that can be added to the prices on the rate sheet. Brokers and correspondents know that this provides them with a much higher degree of flexibility. In most cases, this flexibility allows an honest broker or correspondent lender to easily offer pricing that is substantially better than that being offered by the big banks, making them more competitive in the market place. For example, during the first 6 months of this year, the average price on my closed loans, including SRP, resulted in a total of 1.8% of the loan amount being paid to my company, who then paid me a percentage of that as a commission. I always track the competitors pricing as well. The rates being offered by originators of a huge, national, bank-affiliated lender would have netted me about 2.9% of the loan amount if I offered the same rates. Of course, their originators had no control over pricing and were most likely not even aware that there was that much money in the deal for their employer as they are only paid a percentage of a small portion of that total price. Because I had the ability, at the point-of-sale, to adjust my price, and at the same time, my commission, my customers saved over 1% (actually much more over the life of the loan) by working with me over the brand-name. As I type this comment, a very large, military-affiliated

credit union is quoting a rate that would net me 3.856% of the loan amount, more than double what I typically average. This proposed rule will take away the ability of the mortgage originator to offer flexibility and compete in the market. Additionally, I believe the focus is on the wrong areas of mortgage lending. Most local originators work by referral, meaning if they do not do a good job at a fair price, they are not going to get business. That is the way it should be. In my experience, consumers more often run into problems when they obtain their mortgage financing through an advertisement, be it online, on TV, or in the mail. More should be done to regulate the advertisement of rates, points and fees. More should be done to make it easier for consumers to change their mind at or shortly before settlement. The new MDIA rules actually put more pressure on the customer to close a loan even if they determine that they could have gotten a better deal elsewhere by limiting their ability to get a new loan in place in less than 7 days. These rules all sound very nice and fair, but the unintended consequences are detrimental. I understand that there were, and still are, some brokers and lenders out there who were taking advantage of consumers. For that matter, there were bank-affiliated originators doing the same, though generally not to the same degree. I can tell you from my own experience that most honest brokers and lenders are more than happy to see those that have tarnished the reputation of our industry punished and removed from the business. That being said, these new rules including this proposed rule and the new MDIA rules are making it harder for smaller companies to get business because they are leveling the playing field for the big banks that generally provide a lower level of service and higher interest rates. There are unintended consequences to this rule just as there are to any other and I believe that the consequences here will include a significant decrease in competition and an overall increase in prices available to consumers. Phil Hilton