From: Alexandra Swann

Subject: Reg Z - Truth in Lending

Comments:

Date: Aug 28, 2009

Proposal: Regulation Z - Truth in Lending - Closed-end Mortgages
Document ID: R-1366
Document Version: 1
Release Date: 07/23/2009
Name: Alexandra Swann
Affiliation:
Category of Affiliation:
Address:
City:
State:
Country: UNITED STATES
Zip:
PostalCode:

Comments:

I am writing to comment on two specific provisions of proposed rule R-1366. I want to comment on the proposed changes to YSP. Our office competes regularly with national banks even though we are just a small mortgage broker. Over the course of this summer, we have consistently been able to beat national banks'' pricing by using premium pricing on loans, charging only a $275.00 processing fee up front to the customer, and reducing the interest rate for the borrower. This has allowed us to go in with lower bids than the bank because we are not charging discount points or origination fees. Some of the interest rates we successfully quoted were the lowest posted rates on the investor''s rate sheets, but they were priced with sufficient premium that we could give the borrower a great deal and still turn a nice profit. Under the Fed''s proposal, originators would be limited to either compensation paid by the consumer or compensation paid by the lender which is not tied to the interest rate. This denies a basic truth about loan origination--while originators have upfront expenses in processing a loan, most borrowers prefer to finance as many of their costs as possible rather than paying with cash or even having an origination fee rolled into a new loan. In a competitive situation, the borrower is examining the interest rate and the closing costs. The YSP is part of the interest rate and part of the total APR. To ban YSP is simply going to make loans more expensive for the borrower. All businesses have to make a certain amount of profit in order to stay open. If I can quote a borrower a 4.25% interest rate fixed for 10 years with no origination fee or discount points, and a $275.00 processing fee, the borrower is going to be able refinance or purchase with little cash out of pocket and save a lot of money. If he/she is shopping the loan, (and most are) he will be comparing my estimate to others, and the cheapest bid will win. If YSP is gone, that same borrower will have to pay $$6,500.00 up front either in cash or in equity in his home to get the same loan at the same rate. Either we have eaten up his equity in his home or his savings, so that we could make exactly the same amount of money that we are making now with YSP, but he is much worse off, because he got the

same interest rate, but it cost him a lot more money either in equity or out of pocket. I am requesting thatyou allow YSP to continue as it is valuable tool in financing. I am also asking that you not place restrictions on whether an originator can be paid by both the borrower and the lender. While $275.00 does not sound like a lot of money, with the rising cost of doing business, income tax verifications, copies, ink, etc. that fee makes a big difference to our bottom line. To require that we charge only one or the other will ultimately lead to higher interest rates, or much higher closing costs, and fewer choices for the borrower. I also want to comment on the proposal
to include all expenses in the APR. The new rule which went into effect at the end of July requires that we redisclose the TIL if the APR changes by more than .125%. This is fair because the APR covers lending fees, and the borrower should know if these change. However, if we begin to include appraisals, surveys and title insurance in the APR, the borrower will never be sure about what costs are within our control and what costs are not. Many lenders now require review appraisals, but we don''t know that until the first appraisal has been received and reviewed by the underwriter. Since the fee for the appraisal and the review are not included in the APR, it does not matter to the final TIL. But if we include all fees in the TIL, we will be constantly redisclosing until the borrower won''t really have any idea whether the APR has changed because of higher lending fees or just because of an additional appraisal fee or a change to the title insurance premium. In fact, such a change
could very counterproductive to what the Fed is trying to accomplish, because if the originator knows that there are going to be 2 or 3 redisclosures for items such as title insurance, surveys and APR, he/she could easily increase the loan fees at the same time and slip them through pretty much unnoticed. It is hard to get buyers to understand these disclosures the first time, and we are in real danger of disclosure overload where everybody stops reading everything. Please consider these comments.