From: Affirm Home Loans, Garrison Lamothe

Subject: Reg Z - Truth in Lending

Comments:

I am writing to address some of the proposed legislative changes regarding the compensation of mortgage brokers, lenders or loan originators. In the document, there are many references to the lack of transparency of yield spread premiums to brokers or loan officers from lenders and as such, the need to remove them. Much of this data comes from responses to polls from consumer advocacy groups from 2006 and 2007, when the mortgage market was much different. There was a subprime mortgage industry at that time, with higher cost and higher risk loans being written routinely and there were many problems with the cost and fee structures at that time.

In our current environment, the only available programs are conventional and government programs. The purveyors of those programs are banks, independent lenders and mortgage brokers. A routine examination of the landscape would show that the rates being charged to consumers directly from banks are routinely HIGHER than those that brokers are able to obtain for the customer, at lower costs and yet those rate offerings contain yield spread premium! The rates being charged by lenders have factored in that banks'' compensation (SRP) being paid to that entity by the secondary market, and those premiums are not disclosed. Yield spread premiums charged by brokers, however, are disclosed on every single settlement statement. The focus to eliminate yield spread premiums would be catastrophic for many reasons.

1) It immediately eliminates the borrower''s ability to structure their own loan tailored to their own goals. If a customer is buying a home and has only enough money for their down payment, currently a broker can work for that borrower to derive compensation from the lender and use part of that to either help the borrower with costs or eschew charging their customary direct costs to facilitate the transaction, while still being compensated. Your proposal eliminates that choice for the consumer

2) It would standardize services across the board so there no longer is an opportunity to "shop". One rate, no compensation means that a mortgage is a commodity. Choices exist for every perceivable and imaginable consumer good out there - food, clothing, banking, insurance, etc. Why reduce the mortgage market to a commodity?

3) If you eliminate the ability to earn compensation in areas, and require that the only charges a loan officer or broker may charge are direct to the customer, you will eliminate a significant portion of the income they use to make a living. There will be far fewer loan officers, far fewer brokers, and far fewer people servicing a mortgage market that we can only hope will continue to grow. Less compensation equals fewer jobs, more independent business owners out of business and yet another unforeseen crisis in the very industry you are trying to heal. The Home Valuation Code of Conduct, meant to act in the consumer''s best interest, is already failing miserably and doing more harm than good for the consumers. This will be a sad sequel.

As a broker I am all for transparency, and customer awareness. I believe that brokers came to exist and grow (over 60% of all mortgage originations last year came from independent brokers) because they are advocates of the consumer and to this day continue to offer BETTER rates than banks and structure BETTER loan programs for customers while still earning compensation. I propose that rather than eliminating yield spreads, create some type of disclosure process that makes the customer understand the broker''s full compensation, and assures their understanding. Customers don''t begrudge a broker earning money from the lender and many choose not to have a "par" rate and pay fees directly. Better disclosure and understanding would be a far better remedy to the problems outlined than the elimination of the construct altogether.

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