From: SARA Mortgage & Financial LLC., Jim Akatyszewski

Subject: Reg Z - Truth in Lending

Comments:

To Whom It May Concern:

This purpose of this letter is to address the recent discussion and investigation into the

Concept of broker compensation in the form of yield spread premium, later referred to as "ysp".

Initially I'd like to provide some explanation and definition as to the precise meaning and

Purpose of yield spread premium. Yield spread premium is the compensation paid directly

By the lender to the broker and not paid out of a borrower's loan proceeds. The "par rate"

Is a rate at which the lender pays no yield spread to the originating broker. When the rate is incrementally increased higher than the par rate a yield spread premium is derived where the lender will pay the broker a compensation for originating that loan. The higher the interest rate, the more ysp paid to broker, the lower the rate, the less ysp paid to broker. If a loan is delivered at a rate under the par rate, the lender may actually charge a discount fee to the broker and/or borrower for obtaining such a "below market" rate.

A "par rate" offered by a broker is typically .25% or so less than a comparable rate offered by a bank

With "no points." Therefore the borrower may be charged a small fee to obtain this lower rate.

On the other hand the broker may offer a slightly higher rate so that the borrower may avoid having

To pay any upfront fee.

After reading and reviewing the Federal Register, Vol. 74, No. 164, pages 43279-43285, dated August 26th, 2009 it appears the main concerns of the different consumer advocacy groups focused around the transparency and concept of yield spread premium as well as the potential incentive provided to the broker for offering a higher interest rate to the consumer.

Recently there have been many regulatory changes to the mortgage industry including implementation of the Originator Licensing, HVCC Appraisal Governance & MDIA Disclosure Act just to name a few.

The new Originator Licensing procedures this has eliminated a large portion of the faulty brokers

Lacking proper knowledge, integrity and so forth. These new licensing procedures that require background checks, credit checks, licensing fees & continuing education, are very similar to the licensing standards of FINRA, the governing body for Investment Professionals.

The new Mortgage Disclosure Improvement Act (MDIA) and trade tables now required on new mortgage applications require disclosure not only from the broker but from the lender 72 hours prior to any fees being collected from the prospective client. Clients are free to shop various sources, brokers, banks, credit unions etc. to be able to make a properly informed decision. The mortgage terms offered (interest rate, product & costs) are provided by the broker to the client well in advance and disclosed yet again by the lender prior to any appraisal processing or fee collection. Also included in this disclosure process is the yield spread premium. The disclosures also explain to the consumer they are obtaining a rate slightly higher than a par rate and a yield spread premium is paid from the lender to the broker in the transaction. Given all of the disclosures the borrower will receive, it is safe to say they are making an educated choice based on which loan terms offer the largest
benefit (interest rate, product & closing costs), and not based on yield spread premium paid outside of closing from the lender to the broker.

The new disclosures have a trade table whichshows the borrower different options they are able to select, such as providing for a lower rate, less yield spread premium & more up front Origination, to products offering a higher interest rate, higher yield spread premium & lower up front origination costs with the loan. In addition there are new disclosures which clearly explain the definition of a yield spread premium to the consumer to only further bring transparency to the concept.

The next piece of concern relates to the broker's incentive to provide a higher interest rate to the consumer in order to earn additional yield spread. With the new regulations put in place, namely MDIA, once the borrower agrees to the rate , and is offered adequate time (72 hours+) to review the terms provided by both the broker & lender, the rate cannot be changed without full disclosure to the consumer. If there are any changes, new disclosures are required, and this requires an additional 7 daywaiting period prior to closing. It is therefore not feasible for the broker to adjust the rate to earn additional yield spread premium.

Based on some of the review & research I've done it only appears that a lot of these advocacy groups don't have a true understanding of mortgage finance and the function of the mortgage markets, yield spread premium, or they probably wouldn't suggest such changes as it would hurt the consumer more than anyone as I will detail to follow.

One of the benefits of yield spread premium to the consumer is it allows the broker to derive compensation directly from the

Lender and therefore not from the borrower's loan proceeds. If the broker is not able to derive compensation from the lender it would then need to be charged to the borrower bringing the borrower's costs higher in obtaining the mortgage. In addition it would limit the borrower's options in terms of having the option to pay an upfront cost and obtain a lower rate versus paying a slightly higher rate to obtain a closing costs quote with "no points" or even "no closing costs" altogether where the broker pays the borrower's closing costs from the yield spread premium. These various options can be customer tailored for various borrowers on a case by case basis.

If moving forward the broker were to be paid a flat rate compensation by the lender it would eliminate options and competition in the market. Given all of the new disclosure acts imposed on the industry I would argue that transparency has been brought to the consumer already and they are therefore able to shop around in a very informed manner. Having one rate offered and a flat rate of compensation would hinder the need for competition in the market and the consumer would be the end loser here.

If moving forward the broker were to be paid no compensation by the lender it would have to be collected by the broker. This would allow the broker to charge one "below market" interest rate with an upfront fee to be paid by the borrower. Again, it would eliminate options for the borrower, limit competition in the market & cost the borrower more upfront money overall. Not to mention the borrower would no longer have the option of a "no point" or "no closing cost" option.

By writing this letter I am requesting that these pieces of pending legislation be carefully examined prior to making any decisions that would hurt the consumer more than anyone in the end. Hopefully this correspondence has somewhat increased the level of understanding of not only the concept of yield spread premium but the ramifications of any drastic changes to be made without proper analysis and comprehension.

Please don't hesitate to write back or call me directly with any additional questions or clarification you may require.

Sincerely,

James Akatyszewski
SARA Mortgage & Financial LLC.