From: Dedicated Mortgage Associates, Liz Woodman

Subject: Reg Z - Truth in Lending

Comments:

To Whom It May Concern,

I am writing to express my extreme concern over the proposed changes to mortgage broker/loan officer compensation set forth by the Federal Reserve. The impact such changes will have on the industry cannot be underestimated, to say nothing of the effect it will have on the ability of consumers to have flexibility in the crafting of their own secured loans.

Responsible mortgage brokers and loan officers, of which there are plenty, use the current system of lender-paid yield spread premium to offer their clients options when deciding the best financial path. Because rate has such a profound impact on the amount of interest paid by the borrower over the life of a mortgage loan, and because the addition to principal generated by the payment of a mortgage broker fee might be distasteful to some borrowers, the option of being paid out of yield spread premium allows the broker to discuss the borrowers financial situation with them to determine the best fit for them. If a borrower is going to be selling his property in zero to five years, it doesn''t often make sense to pay points or a broker fee to the broker, thus adding on to principal. In general, the effect of a lower rate does not come into play until the loan matures over 5 years, so taking a slightly higher rate and paying no fees to the broker can be preferable in certain situations.

Historically, the purveyors of high end products - those requiring collateral or pre-approval to obtain - have been compensated by commision pay structures. This is true of automobiles, property, and mortgages. Why should the loan officer and mortgage broker, who, like the realtor, does not usually receive any pay outside of the commision he/she makes on each sale, be penalized for mistakes made largely by the huge lending institutions on our country? How is it that changing the way of broker is paid will affect his/her approach to the business? If a loan officer is cheating the system, he will continue to do so regardless of the pay structure. The issue here is one of fairness. Honest brokers are potentially being penalized for the actions of a few, most of whom left the business when the mortgage fallout began. This has no effect on the large instituions, those who are as much at fault in the collapse of the mortgage market as the small brokers. And what of the rating agencies, who falsely rated securities, allowing them to be purchased without scrutiny during the sub prime boon? There were many reasons for the collapse of the market , all predicated on greed, and certainly not limited to the conduct of a few brokers with questionable practices. This proposal will devastate the mortgage industry, by forcing brokers and loan officers to find the few jobs, likely with the large financial institutions, that are unaffected by the change in pay structure. This proposal will limit the number of options available to consumers, as it will effectively eliminate the broker from the mortgage landscape. As it is, independent mortgage brokers, who are not tied to one lender, who can shop for the best rate and terms for their clients, originate 50% of all mortgage loans in this country.

I urge you to allow the mortgage industry to correct and police itself. Much has been learned from the effects of the sub prime mortgage collapse, not the least of which is the fact that mortgage brokers are not the sole culprits. The industry needs change, higher standards and better safeguards for consumers. But this will not come from limiting the ability of the loan officer or broker to earn a living. Successful, honest brokers will leave the industry, no longer able to maintain the income they to which they have become accustomed. Younger, less experienced loan officers will fill the void, willing to accept less pay, while providing the consumer with less knowledge, guidance and support. Borrowers will ultimately pay the price, and our economy cannot sustain further financial hardship.

If the goal is to institutionalize lending to the degree that borrowers are restricted to applying to large corporations over the internet, then this is the path to take. If, however, it would be preferable to preserve a generally positive alternative in the form of personal, often local guidance and support, then preserving the integrity of the smaller mortgage brokers and their loan officers is imperative. If you take away their ability to structure the loans that best fit their clients, by eliminating the yield spread premium pay system, you will be irrevocably marring this alternative. Borrowers will have less flexibility, brokers will have less pay, and the days of personal service and support in the financial industry will be over.

Thank you for taking the time to hear my thoughts and concerns. I hope you will give credence to all input as you weigh this most important of decisions.

Sincerely,

Liz Woodman
Dedicated Mortgage Associates