From: Arthur Buhrer

Subject: Reg Z - Truth in Lending

Comments:

Below is an articulate example of what is wrong with the new Reg. Z proposals.

"Inevitably, mortgage lenders will find ways to compensate their originators fairly, but not without certain inefficiencies vis-a-vis the current methods. As a result, the cost and availability of credit will be further restricted notwithstanding supposed government efforts to the contrary. I will say, however, that I see no explicit prohibition against paying loan originators on the basis of the loan amount in the proposed legislation. But because the loan amount determines the LTV and the LTV is specifically listed as a to-be-prohibited variable in the compensation calculation, this is confusing. Regulators underestimate the frequency with which many LOs lower the rate with some sacrifice of commission in an effort to get the loan that might otherwise go to another lender. They only see the other side of the transaction. What we will essentially have is a government-imposed form of price control. Price controls always have unintended consequences. In this case, it will involve a shortage of credit offerings by taking away lender incentives to lower rates in the face of competition and removing the incentive of LOs to offer higher rate loans when it would be market-efficient to do so. While it does not appear at this time that the government will set the actual commission rate (i.e., 50 basis points per loan), they will prohibit the lender from paying their originator a different amount based on the rate or fees that they collect. Like it or not, the whole concept of determining commissions based on terms of the loan is based on the fact that it allows a company to be more point-of-sale price-flexible in the interest of transaction efficiency and increasing loan production. There will be fewer loans offered because it is not in a lender's interest to offer below-market terms to a borrower when they will incur "at-market" costs while doing so. Under the current prevailing system, with sliding-scale commission costs tied to the rate, any lender costs that result from making below-market rate loans are shared or absorbed by the LO. This will no longer be the case and additional market inefficiencies will be the result." Well said!