From: James T Crowder

Subject: Reg Z - Truth in Lending

Comments:

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Proposal: Regulation Z - Truth in Lending - Closed-end Mortgages
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Any consideration for consumer protection must include unintended consequences. The proposal to eliminate yield spread premium payments to mortgage brokers fails in this regard. Mortgage Brokers most often use yield spread premiums to fund the cost of the transaction on behalf the consumer. All mortgage brokers are currently required to disclose the amount of the yield spread premium (if any)at the time of application on the Good Faith Estimate and again at closing on the HUD1. As is now required in the regulation, full disclosure must...and is made to the consumer about the existence and the amount of any yield spread premium. This is not the case with banks. Banks and mortgage banks hide behind the weak arguement that they do not receive yield spread premiums. This is simply artifice. Banks and mortgage banks originate loans and sell or securitize them in the secondary market (almost exclusively to Fannie Mae and Freddie Mac currently). The price paid to banks and mortgage banks by the agencies is a direct function of the interest rate on those loans..which is exactly the same as the relationship between rate and yield spread premium for mortgage brokers. Because of this disparity in treatment, banks and mortgage banks are able to charge higher interest rates and offer "no cost" loans whereas, under the proposed rule mortgage brokers will not. The proposed rule does nothing more than restrict competitiion for the benefit of the banks as mortgage brokers will no longer have a level playing field. When competition is reduced or eliminated, the remaining parties enjoy increased pricing power. When one considers that a handful of banks now originate some 56% of all residential mortgages in the United States, it is hard to imagine how further reducing competition will benefit the consumer. These banks are already pricing their offerings at somewhat higher rates than those of mortgage brokers. One can only conclude that this proposed regulation is a "red herring" whose real intent is to benefit banks and the few remaining mortgage banks at the expense of the consumer by wiping out the remaining mortgage brokers. One might further speculate that this is being done to protect the Government"s investment in these banks as all of them had to be bailed out as a result of their excesses and abuses in the last decade. I have provided these same comments to my Congressional representatives and to the White House as I feel very strongly that this is either a very poorly conceived regulation or a very thinly veiled attempt to kill the mortgage brokerage industry to protect banking special interests. Please do consider the best interests of the consumer! The best way to ensure that the consumers best interest are preserved is to leave the yield spread premiums regulations as they are. In fact, I would encourage either going back to the previous regulation where yield spread premiums were not required to be disclosed. Further, the consumers best interest is always served with robust competition. To make the playing field level with banks and mortgage banks, the regulation should either eliminate the disclosure of yield spread premiums or require that banks and mortgage banks disclose the price that they would receive from the Agencies based upon the published prices at that interst rate for the premium above the minimum required net yield at the current coupon. Having a common metric for mortgage brokers, banks and mortgage banks would offer the consumer more information. Otherwise, and perhaps the simplest and best way to disclose the true cost of a residential mortgage transaction to the consumer is to provide a disclosure of the rate, the closing costs as one single number, the type of loan (fixed, adjustable, etc.) and how the terms of the loan may change over the life of the loan if it is other than a fixed rate loan. I have attended thousands of closings as a mortgage broker and as a mortgage banker. I have yet to have a single consumer be able to grasp the concept of the APR or care about closing costs except as an aggragate total number. The consumer wants a simple, easy to understand disclosure that will allow them to be an informed shopper. The proposed regulation obfuscates the true cost to the consumer and to their very great detriment.