From: Michael Huffman

Subject: Reg Z - Truth in Lending

Comments:

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Proposal: Regulation Z - Truth in Lending - Closed-end Mortgages
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I am a 15 year veteran of the mortgage industry. Why do we allow the unethical operators in this industry affect the entire delivery system when we should deal with them and move on? When will we realize we cannot legislatively protect everyone in the United States without severe unintended concequences? This proposed rule change for Reg Z will ultimately damage our ability to deliver cost effective mortgage products to all segments of the mortgage markets, especially the underserved. I also submit that this rule is somewhat antiquated because the loan programs that provided incentive to move borrowers to much higher rate programs no longer exist.

This rule threatens the existence of a segment of the mortgage markets that is already feeling pressure from market forces, mortgage brokers. While elimination of yield
spread payments to brokers and compensation to loan officers based on higher rates sounds like a great way to protect the consumer on the surface, there are massive unintended conscequences that will result in many borrowers that qualify for FHA, VA and some conventional loans, not being able to locate loan officers or brokers that will work with them because the profit motive has been eliminated. Ultimately, this will harm consumers by eliminating competition. If brokers and loan officers are not allowed to receive incentive pay based on yield spread payments, many of these useful sources of home financing will be forced out of business, pushing homebuyers into a shrinking number of lenders where minimum credit score and lender guidelines will be more restrictive
because the "harder to place" loans that meet FHA guidelines, but need additional effort to work with clients in dealing with credit issues, take more time and effort to close. This is already happening with FHA loans. Most of the major wholesale and correspondent sources of FHA loans including Chase, Bank of America and Wells Fargo, have already placed credit score restrictions on borrowers that FHA does not impose.

Many of these borrowers can be and should be approved, but their credit score does not meet the lender''s specific guidelines. If they are served at all, lenders that serve these markets will realize their lack of competition and incorporate a pricing structure that will cause these underserved borrwers to actually pay more for mortgage financing with the the profits going to the corporate structure. Interest rates and costs are and should be driven by competition.

Less competition always results in higher cost to consumers. Yield Spread payments simply give lenders, brokers and borrowers more options when it comes to structuring a ransaction. The key to protecting consumers is making sure they have the information they need to make a good decision. We must estabilish the fact that we cannot address every area and protect consumers 100% without damaging the entire system to the point we affect the delivery of home mortgages to the masses. Everytime we enact additional legislation that impedes the ability of good law-abiding citizens to operate their businesses, we eliminate the most important factor... competition.

If you want lower cost financing, increase competition. We must create an environment that fosters competition verses an environment of intense regulation that drives participants out of the business. If we continue down this path, the Federal Government will ultimately assume responsibility not only for the guaranty and delivery of mortgage instruments
to the investment community, but for the funding of the loans themselves
because the risk is to great and the reward is deminishing.