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Subject: Reg Z - Truth in Lending

Comments:

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Proposal: Regulation Z - Truth in Lending - Closed-end Mortgages
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The proposed regulation will hurt consumers, particularly those with lower incomes and smaller mortgage loans. I have been a manager of mortgage offices for the past 7 years and I see this regulation as another regulation that does not help prevent current or future foreclosures, but stifles the ability for many to get a reasonable low-cost home loan. We cannot go back and change the fact that many loans were made to borrowers that could not afford the terms, that is too late. Many of the loan officers who pushed those types of loans are actually out of the business and it is the experienced, ethical offices that still exist. This may not be directly related to the proposed change, but I urge you to consider that as we try to make the American dream a reality, multiple regulations have been piled on top of each other. There is no evidence that any of these regulations will help consumers in the future and the evidence will be impossible to see since so many changes have occurred in such a short time. This regulation in particular is certain to hurt competition, and therefore the consumer. I am currently helping a buyer purchase a home with an FHA loan. He has approximately $7,500 of his own money that he has saved for some time, and allocated towards buying a home. I am not sure exactly how long he has been saving, but you should understand that when a person saves that much money, whether it was in a year or five years, it is a major commitment, and he was proud to tell me that he had that much saved to buy a home. He is buying a home for $170,000 so he MUST have 3.5%, or $5,950. The seller owes more than their home is worth and has asked the bank to forgive debt to avoid a foreclosure (we refer to it as a "short sale"). The bank has agreed, and has even agreed to pay a small amount of the buyers closing costs, further increasing their loss, but still avoiding foreclosure. Between the $1,550 the buyer has after down payment and the $3,000 the bank has agreed to pay, there is not enough to cover all of his closing costs. On the surface you

may think that your regulation will help reduce those closing costs and that $4,500 is already excessive. In those closing costs are future tax payments (impounds so that he does not get a surprise bill later down the road like so many in the "bad" loans did not have set up), there is a year of fire insurance, again to set up regular payments and not have a surprise down the road. In addition there are escrow, title, appraisal, notary and recording fees, each a substantiated, typical fee. Those fees alone take up all the seller credit, and all the additional money he has beyond his down payment. As a lender we must also be paid for our services since we are a business, with employees and expenses. Due to the current structure, I am able to provide the buyer with a slightly higher rate, 5% instead of 4.75%, and I don't have to charge him any fees or origination points. The difference of $25.33 a month means that he CAN buy the house rather than finding a seller that can pay the additional closing costs -or- waiting until he can save the additional $3,000 (1% origination and approx. 1,200 in fees). He was proud of his $7,500 that he has saved and he felt the $25.33 in payment was well worth the opportunity to buy now, rather than wait. This is a 30 year fixed loan in a neighborhood he likes and the potential gain in wealth, in the long term, to this young man is incredible. An opportunity to buy a home for the middle class is often the only reasonable way into retirement, college for children, or just a decent upbringing with stability and consistency. It would be sad for me to have to tell him that he cannot buy the home at this time and he must save more money because a regulation meant to curtail costs actually prevents him from buying a home. Did you know that California has a "high cost" rule for fees and points? The regulation calls for a cap of 6% in points and fees, defining points and fees as any fee included in the APR per regulation Z. this would seem like it was no problem, as I have never seen a mortgage lender earn 6%, however when you look at what is included in the APR, many of the fees are not paid to the mortgage company, and in an FHA loan even the upfront MIP, paid to HUD is included in that calculation. Today, I have to advise my staff that we cannot do loans when people want a 35,000-70,000 loan. If we did the loan and did not charge one dollar we would still be over the high cost loan tolerance based on the way it is calculated. This is an unintended consequence that the state regulators did not count on. I bring up this example because I feel that this rule, depending on the final language, may have similar consequences to the low income small loan amount buyer. It certainly seems to make the California rule worse since the only way we can do some of them is by using a higher rate and avoiding upfront csts as much as possible. I also must mention that we don't "pass up" the small loans because they are not profitable, we CANNOT do them even without income to our office, based on the way the rule is written. The lack of competition of different lender groups will no doubt hurt the consumer even further. I see myself in this business for a good long time, most likely into retirement. The path I have taken has put me employed by banks, mortgage bankers, and brokers. The competition is multi-leveled with retail officers from all three groups competing on the streets. Wholesale lenders compete for the mortgage broker business, One is not better than the other, and there are benefits to each one. Should this rule pass, the bank will have an advantage and we will see the broker slowly transition to the bank in a more severe way than it has been so far in this turbulent market. I currently offer better options and rates than banks do in my market. Without the broker entity the banks will not have
a competitor to keep their rates even close. I may very well work for a bank and continue to help homebuyers accomplish their dreams and we will all be simply feeding profits to the banks at the expense of the consumer. Imagine that, competition that now exists on three platforms each with their own competition, suddenly converted to one platform with only similar entities to

compete with, banks. I have a lot of friends that work for banks and I have worked for them in the past also; I am not against them, but I am FOR competition, and helping the consumer. There are other less damaging parts to the proposition, however, I feel that if you look at these three damaging blows to the consumer you really have no choice but to let the current regulations run their course and revisit this or other regulations if there is a feeling that consumers are not being protected. Taking away low cost and no cost loans hurts the consumer; making a low income, small home purchaser pay the same fees as higher priced buyers hurts the consumer; and adding another regulation to this already heavily scrutinized industry will hurt the consumer. Please do not hurt the consumer. George Moring