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January 15, 2010

The Honorable Ben Bernanke
Chairman, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Response to Senate Letter Dated December 24, 2009 re Proposed regulations to ban yield spread premiums(Amendments to Regulation Z (Truth in Lending) for Closed-End Credit and Home-Equity Lines of Credit)

Dear Chairman Bernanke:

I am writing to shed some light on the real details that were addressed in the letter to you from the Senators. In every industry there are shady characters. Even in politics where individuals present themselves as honest and forthright there are examples of such deception and unfair or unethical practices. Ethics it has been said can not be legislated or demanded, for it requires the willing participation of those taking action.

I have been a loan originator since 1997. I have seen the rise and fall of sub-prime from the driver's seat. In the late 90's subprime was a valuable tool in loan originations. This product was different from FNMA and FHA/VA and had a niche in the market. It was commonplace to have a borrower that did not qualify for more conventional style financing, be able to qualify using the sub-prime market. These loans required full documentation and had strict income to debt ratio qualifications similar to the FHA guidelines.

At the urging and legislative pressures Fannie Mae created programs that interfered with the status quo. Loans such as 100% financing and the dreaded "expanded approval" automated underwriting functions took business away from the sub-prime market and moved borrowers into the prime market. The repercussions of this action are largely t blame for the housing crisis.

It is important to note that at NO time did the true sub-prime market ever offer more than 103 basis points compensation. In fact it was common for the sub-prime market to limit income to the broker. These limits were more conservative than the "lure" of fannie mae to place the client in an expanded approval, not to mention the insane approvals supplied by the Fannie Mae Desktop Underwriting system.

Desktop Underwriter, until very recently, provided approvals that were SHOCKING to say the least. Approving a borrower, regardless of credit standing, at debt ratios of 65% percent of earning or even higher was truly an injustice. This type of loan product stole business that would have been submitted to the true sub-prime market. The true sub-prime market had two choices, go out of business or buy deeper. The choice to buy deeper and fight for survival was the only realistic choice. We all know where this story ends.

The New York Times editorial from April 10, 2009 does not inform the reader of the criteria used to establish the claim of borrowers paying $17,000 to $43,000 more for every $100,000 borrowed. It is easy to ascertain that a borrower with a higher interest rate ultimately pays more in interest over the life of the loan. It is disingenuous to claim a wild spread like this. As of today this exact claim could be made based on Fannie Mae price adjustments for credit score fluctuation. A borrower with a 740 fico score is afforded pricing that is typically ½ point in rate better that a lesser qualified credit score borrower. Applying the same test one could make the argument that the result is over $14,000 per $100,000 financed, and this is FANNIE MAE pricing, NOT an originator taking advantage of a borrower.

No doubt that the misrepresentation of CDO's by rating agencies caused significant troubles. This was not the result of YSP. It was and is the result of credit rating agencies NOT doing their job. The true revised regulation needs to address the rating agencies and how they operate.

In the final paragraph of the letter from the Senators they claim that eliminating the ysp will in someway restore "confidence to the markets, help reopen lending channels, and, most importantly, protect working families who expect that their most important investment, their home, will help them grow their wealth and their happiness over the long term". The truth can not be further distorted. Eliminating yield spread will most certainly reduce the options borrowers have to shop for their mortgage. The industry has already adopted policies and practices that will greatly reduce the opportunity for a rogue loan originator to manipulate a borrower into a bad loan….those loans do not exist so the originator can not offer the product unless it is recreated by the industry and its investors. Further I submit that the big banks regularly deny an application and send the applicant on their way.

Loan originators like myself; rely on creating a relationship with the consumer. Sometimes that means taking a borrower that has credit that is not acceptable to the bank and working with them for months to improve their situation to a point where they will qualify for a home loan. Just this week we issued an approval on a FHA 30 year fixed rate to a family that I originally met in September of 2009. This borrower was surprised and excited to get the approval and there is already price discrimination policies on the books that protect a borrower from discrimination based on protected classes. That policy when applied creates a fair and equitable price for service for all clients.

Thank you for your time,

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