From: Realtech Financial Services, Inc. , John Frangoulis

Subject: Reg Z - Truth in Lending

Comments:

To: Federal Reserve Board
Re: Docket No. R-1366

My name is John Frangoulis. I am the president and Broker of record for Realtech Financial Services Inc. I have been a mortgage broker since 1989. My office is in Walnut Creek, California. I am proud for the job I have done serving my clients in their real estate financing needs. I am proud to have been able to serve and offer financing to single mothers, minority and other first time buyers. I specialize in the first time homebuyer market offering educational seminars for first time buyers and I consider myself a consumer advocate representing my client's real estate financing needs. I am also proud that in 2005 and 2006 I told dozens and dozens of potential buyers not to buy.

I strongly support the goals of the Federal Reserve Board to protect consumers. The boards efforts to make sure that no borrower is charged more than he has agreed to and that no loan originator can play "bait and switch" games with mortgage programs, YSP, prepayment penalties etc, should be complimented, encouraged and ultimately be successful. Everybody in the industry should cooperate with the Board for the success of such effort, for the benefit of the consumer.

Unfortunately even though I agree with the Board's goals, I have to totally disagree with the methods the Board is proposing to achieve those goals. In its effort to protect the consumer the Board's regulations will cause unnecessary stress to the mortgage origination market place to the detriment of the consumer that needs the most help and support. Those regulations will result in the elimination of a truly free market and the creation of a monopoly. As a broker I compete with many other brokers, mortgage bankers, small banks as well as big Financial Institutions. In your efforts to protect consumers you should not differentiate among any loan origination class.

I personally bank with Bank of America and I go into a branch once or twice a week. Each Bank of America branch has a board advertising their rates and points. The rates I offer to my clients are consistently lower with lower origination points than those offered by Bank of America. I recently had a borrower decide to go with Bank of America because they were paying for his closing costs. At the end he got a higher interest rate than the one I was offering and had to pay two and a half origination points. The B of A loan was much more expensive than the loan I was offering.

The mortgage Industry has changed drastically and since most banks sell their loans they are acting like brokers. For the best protection for the consumer all originators should be treated the same. In order for consumers to be able to compare loan programs all disclosures should apply equally to all mortgage originators. If you apply the same rules to all originators the consumer will be able to easier compare which originator gives the best loan.

People cannot be promised a free lunch. There is no "No Cost Loan". As an originator I need to get paid. I can be paid from the borrower by charging him an origination fee or I get paid through the lender through yield spread premium and higher interest rate. In either case it is the borrower who pays me, either with money upfront or through his higher monthly payments. It is extremely important for me as a mortgage broker to be able to have yield spread premium available to be used for the benefit of my clients.

I recently closed a loan for Mr. S.M.C. He bought a home in Bay Point, California for $205,000.00 He had less than $10,000.00 to work with. I told him and his realtor that FHA requires 3.5% of the purchase price to come from his own money and we can get credit from the seller for his closing costs. They found a house and made an offer asking the seller to contribute $8,000.00 dollars towards the buyers closing costs. After negotiations the seller was willing to only pay $5,000.00 for closing costs. I explained to the buyer and his realtor that instead of giving up on purchasing this property I could give the buyer a higher interest rate, get higher Y.S.P. and contribute the money towards the buyers closing costs. I did the calculations and told the buyer that his monthly payment will increase by sixty-two dollars and thirty three cents and he will get up to $3,000.00 dollars in credit. With that knowledge the buyer decided to proceed. He received $2829.00 dollars broker credit and was able to purchase a home for his family. The day the loan closed his wife bought a present for my processor and me and with in a month he referred me his friend to let me help him buy his first home.

Once again I would like to emphasize that in its effort to protect the consumer the Boards regulations will cause unnecessary stress do the mortgage origination market place to the detriment of the consumer that needs the most help and support. Those regulations will result in the elimination of a truly free market and the creation of a monopoly.

A yield spread premium not only should not be illegal but it should be encouraged and used as a tool to assist needed borrowers to get the best mortgage product for their particular circumstances. A person who buys a million dollar property and puts down two hundred thousand dollars does not need help with his closing costs. A first time homebuyer with the minimum down payment available needs all the help he can get. A mortgage originator's ability to use Y.S.P. to either get paid and or pay for all other allowable closing costs can make the difference between being able to become a homeowner or not. A borrower should be able to finance the costs into the loan or into the rate. A loan originator should be able to be compensated either from the borrower directly fully or partially or from the borrower indirectly from yield spread premium, or a combination of a loan origination fee and yield spread premium.

The regulations call for the industry to change the way all loan originators are compensated. The whole industry as well as I pay our loan originators based on the income we receive when a loan closes. With the new regulations my loan originators will have to be paid hourly or a flat fee. Mortgage brokers will not be able to compensate their loan originators hourly or a fixed salary. I personally will be concerned that if I had an hourly agreement with my originators and they work on a number of loans that do not close, I could have some originators demand to get their hourly pay. I believe that if a loan originator takes me to the labor commission I will be forced to pay the hourly rate I have agreed to regardless of whether the loan closed or not. Presently W-2 loan originators can collect unemployment even though they are actually independent contractors paid on a W-2. With Mortgage brokers unable to pay an hourly rate or a salary, loan originators will gravitate to large banks and eventually mortgage brokers and small bankers will disappear.

The regulations call for each lender to execute compensation agreements with a mortgage broker when a broker is compensated from other than the borrowers own funds. The result will be for a broker to have a number of agreements with many mortgage bankers further confusing the consumer and creating improper steering conditions with many negative unintended consequences. These new anti steering regulations are difficult to enforce and they will create an environment for more regulation and more litigation. There is no way I can promise a client the "best rate available". In 2004 I had 5 loans locked with a lender that was offering the best rates at the time. They were all time sensitive purchase loans. None of these loans closed with that lender. I was able to salvage 3 of them with another lender at a higher rate. Promising "best rate" and steering loans to specific lenders will expose brokers to greater liability, and with many brokers deciding to go out of business the result will less competition. At the same time many mortgage bankers fearing additional exposure to liability will choose not to participate in third party origination. The proposal will have a damaging impact on many small business.

The effort to overprotect the consumer will have many negative results. The proposal makes it more costly for me to operate and most likely it will make it impossible for me to function as a mortgage broker. The Boards regulations become anti small business and anti consumer penalizing the entry level less affluent consumer that needs the most help. The elimination of the competition provided by the mortgage broker and the small mortgage banker will eventually lead to a monopoly with all its negative implication to the mortgage market place.

The Boards regulations are not feasible or practical in today's mortgage market place. They will create a totally new mortgage environment with many adverse and unfavorable effects. Y.S.P. does not "present a significant risk of economic injury to consumers" but rather helps the low-income entry-level borrower. The Board should allow some time to see the impact the new Good Faith Estimate and new HUD-1 will have on the market. At the same time the Board should commission a study to examine and measure the potential impact the Boards proposed regulations would have on the market place.

Before developing the Final Rule the Board should examine other ways to accomplish the Board's goals and how to make lender payments to brokers more transparent to consumers. The present recommendations will negatively and disproportionately impact small businesses, will negatively change the mortgage industry and mortgage origination process, harm the consumer and prevent an orderly recovery of the housing market.

I would like to thank you for considering my comments and I hope you can consider other alternatives to protect the consumer and apply the rules equally to all originators in order to encourage competition without destroying the mortgage origination industry. Most mortgage brokers are honest small businesses serving their clients and their community. I hope you find my comments constructive. Let us all work together for a solution to better serve the consumer and keep homeownership alive.

Thank you,

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