From: Mortgage Network Inc., Donald F Rupert

Subject: Reg Z - Truth in Lending

Comments:

Date: Dec 10, 2009

Proposal: Regulation Z - Truth in Lending
Document ID: R-1378
Document Version: 1
Release Date: 11/16/2009
Name: Donald F Rupert
Affiliation:
Category of Affiliation:
Address:
City:
State:
Country: UNITED STATES
Zip:
PostalCode:

Comments:
I am writing to express deep concern over the Federal Reserve Board Proposed Rule revising Regulation Z, Docket No. R-1366, specifically as it pertains to the "Option-A" provision. "Option-A" prohibits the payment of yield-spread premiums (YSP) to mortgage brokers. Prohibiting YSP payments to brokers would effectively eliminate the broker channel, causing thousands of small businesses to close, and ultimately hurting consumers by reducing competition and increasing mortgage origination costs. Mortgage Network Inc. (Louisville, KY), of which I am a partner, has been in business since 1988. In that time we have had no consumer complaints filed against us, no legal violations, no actions taken against us by any regulatory body including HUD, the Department of Financial Institutions, the FTC, the Secretary of State, or any other, and have had no loan repurchase requests by any of our investors. We have maintained extraordinarily high levels of loan quality as measured by repayment performance. Our percentage of defaults consistently runs less than one half the national average for all lenders according to our investors and to HUD's Neighborhood Watch web site. These are all facts that can be verified. We run a clean and highly ethical business. Unfortunately, if YSP payments to brokers are eliminated, we will have no ability to compete in the marketplace and our company will be forced out of business. Borrowers will not have a "low closing cost" option through brokers, only through banks and mortgage bankers. The vast majority of our clients choose to pay a slightly higher interest rate, usually .125% to .250%, in lieu of paying an origination fee. Most borrowers cannot justify paying higher up-front closing costs after considering the length of time needed to recoup those costs in the form of a lower monthly payment. And every client who has ever obtained a mortgage through Mortgage Network has been given both options. We do not attempt to steer borrowers into any particular loan rate and term combination. In fact, our Company and our originators have no financial incentive to do so. Our net income is roughly equal regardless of which option is chosen. Here is an actual example based on

a 30-year fixed rate FHA loan as of 12/9/09: Our customers could choose a rate of 5.00% with no points or origination fee (0+0), or 4.875% with no points and a 1% origination fee (0+1). The company would earn a .01% higher yield based on the 5.00% option, or $15 on a $150,000 loan, and there would be no difference in compensation to the originator. For the customer, the difference in payment between 4.875% and 5.00% on $150,000 is $11.42 per month. The difference in closing costs with no origination fee versus a 1% origination fee is $1,500. It would take the customer 131.35 months, or nearly 11 years, at $11.42 per month to recoup the additional $1,500 closing costs necessary to obtain the 4.875% rate, not factoring in the time value of money. Why would anyone chose that option? Mortgage brokers have often been unfairly accused of being the primary cause of the current mortgage crisis. While many brokers acted irresponsibly or worse in the years leading up to the crisis, many more followed the rules and conducted business both legally and ethically. A large number of brokers have already exited the business, including the vast majority of bad actors. If the Board adopts "Option-A", the broker channel will cease to exist, which will allow lenders to increase profit margins at the expense of consumers. All we seek is a level playing field. The Federal Reserve Board has an obligation to the public, not to any particular segment of the mortgage industry. Many large banks would benefit by the reduction of competition stemming from the implementation of "Option-A". The Board cannot allow that to happen, particularly when it is unnecessary given the availability of several preferable alternatives. A better solution than "Option-A" is to require all mortgage lenders to provide information to consumers regarding lower closing cost/higher interest rate options versus higher closing cost/lower rate options. "Steering" must be banned. Implementation would be simple.the new Good Faith Estimate form provides space for such a comparison on page 3. Consumers would benefit by being more well-informed, and by the downward pressure on costs resulting from increased competition. The Board has an opportunity to fix the problem without shaking up the entire industry and causing unintended, adverse consequences to consumers. I urge you to carefully consider my plea and eliminate "Option-A". Sincerely, Donald F. Rupert President Mortgage Network Inc.