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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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Comments:

Dear Sir or Madam, I am very concerned with the proposal to eliminate Yield Spread Premium (YSP). It is my understanding that you are interested in protecting consumers and that is why you are considering the elimination of YSP. I urge you to strongly consider that the elimination of YSP may result in increased costs and poorer service for consumers. Here is my reasoning for this statement. The free market rewards those that provide the best service and value to consumers. Those businesses that offer the best rates and service will grow. Those that do not will eventually be eliminated from the market place. There is an equilibrium point in the market where the best rate is balanced by the best YSP for the broker. Because of competition, consumers select brokers that offer the best value. For example, if I did not offer competitive rates, my clients would take their business to my competitor. In order to offer the most competitive rates, I must take the least amount of YSP that still allows me to make a reasonable profit. If I wanted a higher YSP, the rate would be higher and I would lose business to someone that was willing to offer a lower rate with a lower corresponding YSP. Lenders are rewarded with more business when they offer the lowest rates and highest YSP. The greatest benefit of this give and take is that the consumer benefits from the competition. I am constantly analyzing different lenders in order to choose the best rate for my client. The market is very dynamic. When competition exists, the consumer shops for the best rate, the broker shops for the best rate and YSP combination and the lender that offers the lowest rate and highest YSP is rewarded with the most business. The elimination of YSP will decrease competition and the dynamic forces that result in the lowest rates for consumers. Another concern is the unequal playing field that exists between brokers and banks. Mortgages that are originated under banks do not need to disclose YSP or SRP. If you are truly concerned about consumers, all originators should disclose the rebate, whether YSP or SRP, to the consumer on the Good Faith Estimate. This

would educate the consumer and protect them from predatory loans originated by banks. The glaring lack of transparency from bank originations is troubling. I believe that the reason most mortgages are originated by brokers is because brokers offer the best value and service. The elimination of YSP would benefit banks at the expense of consumers. If you want to protect consumers, I would offer a few alternatives to the elimination of YSP. First, support the move to a national standard for licensing mortgage brokers. The new requirements going into effect in 2010 require background checks, increased education, licensing and increased cost to enter the profession. These requirements raise the bar on those that want to practice in the industry. They will preclude those that cannot meet minimum standards. Second, increase enforcement of existing laws and regulations that already govern the profession. Those brokers that do not abide by the rules should be heavily fined and/or expelled from the profession. In conclusion, I strongly oppose the elimination of YSP. I believe that the free market will provide the best pricing and cost structure for consumers. By eliminating YSP, especially without eliminating SRP on bank originations, you will do a disservice to consumers. You will decrease competition and this will ultimately increase the costs to the consumer. Government should encourage rather than decrease competition. It may not be politically correct, but you need to have faith in the free market. It made our country the economic engine of the world. Sincerely yours, Phillip H. Gerstner, CPA CFO Lighthouse Home Loans, Inc.