

From: Guarantee Home Loans, Nick Barayuga
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Name: Nick Barayuga
Affiliation: Guarantee Home Loans
Category of Affiliation:
Address:
City:
State:
Country: UNITED STATES
Zip:
PostalCode:

Comments:

Without there being some type of flexibility as to how YSP is handled and maintained, the Mortgage Broker industry will be unable to maintain its existence. I know that my company's pre-tax profit is approximately 1% of gross revenues and that is with an average net YSP of 0.25% to 0.35%. (In a few cases, the borrower elects to do a zero cost loan. YSP is used to cover the cost of the loan and our fees.) If we are not able to retain the YSP, our company's revenue would be reduced by approximately 20% - 25%. At that point we are no longer profitable and are out of business. Why should you be concerned about that when there appears to be no direct benefit to the public? First, if we no longer exist, our employees no longer exist and unemployment will rise. Additionally, there is an entire wholesale mortgage channel that will cease to exist due to the lack of a broker industry which will lead to additional unemployment. What does the broker industry bring to the table as benefits to the borrowing public? The answer is several true measurable benefits. 1.) I know that in most cases, my company is able to get a lower cost or lower interest loan for our clients instead of going directly to the "Big Bank" (and we still get a modest YSP). Our lower overhead and efficiencies along with wholesale pricing provide our clients a real benefit. 2.) As a California Broker, we have a fiduciary responsibility to act in the best interest of our borrowers. If the loss of YSP leads to the closure of brokers, borrowers will only have banks to go to. The bank employee's responsibility is to maximize profits for the bank. Banks receive outside income from their loans comparable to YSP. There appears to be no requirement on their part to treat that income as Brokers are required to treat YSP, i.e. eliminate it. 3.) If a flat fee structure is required, then borrowers applying for lower loans will pay more as a percentage of their loan amount than those obtaining higher loans. It seems as though those that can least afford it will be penalized through higher interest rates or fees. The government, in its

taxing theory has always said that those who make more should pay more. This proposal seems to be the opposite. In some cases, California regulations would prohibit us from doing some loans entirely due to excessive costs. We are now able to compensate for pricing differences by using YSP which we won't be able to do if we don't retain some flexibility. 4.) Maintaining a strong broker industry helps the public by allowing the broker to screen different sources that will be willing to fund an individual's loan. Regardless of what you might think, not all lenders look at borrowers the same way. One lender may say no while another will say yes. It is up to the broker to know who will say yes. The borrowing public would have to go all over the place incurring additional expenses and denials, trying to find the ones that will say yes. Our objective has always been to provide qualified people with the opportunity to be homeowners. 5.) Not all loans require the same amount of work to get closed. It's not much different then taking your car to a mechanic and paying the same for an oil change as someone does for an engine overhaul. Your proposal takes the incentive to excel out of the equation and sounds rather socialist. 6.) Brokers don't get paid for everything they do. Only a fraction of the people I talk to can even qualify for loans under the current lending environment. We work on getting underwriting approvals on those that do qualify. Not all of those application/approvals end up in a closing. If brokers got paid for every service they provide, your proposal might not be so bad. We only get paid when a loan closes. Unlike a lot of industries, brokers get compensated for results, not activity. 7.) The Fed's proposal will make it difficult if not impossible to "reduce" our fees. We occasionally take a "hit" on our income to enable a borrower to purchase a home or refinance their current home. Without the flexibility, we will no longer have that option. On the surface, it seems as though the Fed's intention is to see that the public is not taken advantage of. Your intention is honorable but your approach is misguided. The unintended consequences of your proposal will simply lead to the public having fewer options due to less competition. Your proposal "will" lead to the elimination of the brokerage business simply by making it unprofitable and uncompetitive. The elimination of competition will lead to higher prices to the consuming public, it always does. Then what have you accomplished? The purpose of HUD's new GFE is to give the public an opportunity to shop for the best loan for them. Give it a chance to work. Let the wholesale lenders regulate the income their brokers can collect on a loan (they already do). If they see abuses, let them take care of it. In today's lending environment, everyone is extremely conscientious of what they are doing. The business practices conducted in previous years are no longer being tolerated. The loan products that allowed the abuses you are trying to protect against no longer exist. The mortgage industry has started and is well along self-correcting itself. It's been said that the real estate industry got us into this mess and it's the real estate industry that will get us out of it. It's my opinion that the mortgage brokers, given the opportunity to do what they do best, will play a big part in getting us out of this mess. Let the market correct itself. Don't tie the hands of those who are able to assist.