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Proposal: Regulation Z - Truth in Lending - Closed-end Mortgages
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"Forgive them for they know not what they do." Ever hear that? In the mortgage arena, no one from the government that has written one word of the R-1366 rule has ever originated a loan for a buyer that wanted to purchase a home or refinance their existing home. They probably never performed brain surgery either. If you were writing on either subject you may not be an accomplished expert in the field but you need some practical knowledge. The writers have NO practical knowledge of the markets. Prior to 1970 there was no secondary mortgage market. The mortgage market was independent of the New York bond market. The S• made a home loan 4% to 5% above the savings rate. They keep the loans and sometimes sold them to another S• to obtain additional funds to make more loans. The invention of GNMA and the mortgage backed security (MBS) connected the NY bond market to the mortgage market. Thus mortgages begin to trade like bonds, those that were securitized. Only GNMA with FHA and VA loans had MBS. The conventional world had not begin MBS. In the bond market a higher coupon always brings a higher price if grade and maturity are the same. The UST has outstanding 13% bonds that have short maturities right now. They carry 20 to 30% premiums. They trade in the marketplace. This same mathematical fact was now avialabel in the mortgage market. It really took almost 20 years to really take hold. But simply if you originated a mortgage loan at 6% you got paid more than if you originated it at 5% no matter if you were a bank, individual or other institution. In 1992 President Bush wanted to get re-elected and financiers told him if he would put out REG X on RESPA which would make these new mortgage brokers reveal there profit or premiums on mortgages originated they would pledge several million \$\$ to his campaign and they would garner votes for his re-election. Thus was born "yield spread premium" YSP for brokers only. The banks saied they didn't want to show that and could not calculate how much profit they would make. Simply put - they wanted to drive ALL originations to them and not show the borrower the profit. The YSP had no

purpose in explaining anything to the customer - just getting President Bush re-elected. So the next year was 1993 and the greatest drop in rates we have ever witnessed and all hands were needed to refinance ALL existing mortgages. Mortgage Brokers really begin to flourish and America was in mortgages at 6% instead of 10%. So here we have the NY bond market trading premium bonds and the government agencies telling mortgage brokers you can not originate premium mortgages. If you do you can not receive any premium. The banks can originate that premium mortgage and receive the premium. Now who owns shares in the Federal Reserve? Mortgage Bankers? Banks? Is there any connection between the owners of the Federal Reserve getting a more favorable treatment? What say you? To suggest that an originator charge a flat rate and have it paid over the life of a 30 year mortgage is like crawling up on the movie screen and running off with Mickey Mouse. Originators do not design the mortgage products, we do not approve the loan nor fund the loan with our money and we do not collect the monthly checks or foreclose on the property. We do not handle the money. When Baer Stearns went out to Calif. on told Dan Spadek to originate all the "no documents, no assets, no income loans" he did that to the tune of \$3 billion. Baer Sterns bought them from him and sold them to Iceland with AA or better ratings from Moody's, S• for the fees paid by Baer Stearns. Spadek was not even a mortgage broker, he was a \$250 loan company and became a multi millionaire. It says a great deal about the opportunities in this great country and also a lot about abuse. We are not like Spadek or others that committed outright fraud. You know we are slightly similar to Ms Brooksley Born that warned about the Credit Default Swaps and was shot down by the concerted efforts of Greenspan, Sommers, Rubin and Levitt and the Senate and House. They won't even talk on camera about it!! So hey, you can just say no more third part mortgage originations. Only your member banks can originate mortgages by W-2 employees. Let Goldman originate loans!! Ha! HA! They wouldn't stoop so low, they want to bet on the 5yr being cheaper than the 10 yr UST with the taxpayer's money. Originate loans or even interfacing with a customer to buy \$100,000 worth of stock - that's beneath them. I