From: Savage Mortgage Services, LTD, Jack Howard

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Name: Jack C Howard
Affiliation: Savage Mortgage Services, LTD
Category of Affiliation: Commercial
Address: 4427 Talmadge Road
City: Toledo
State: OH
Country: UNITED STATES
Zip: 43623
PostalCode:

Comments:

PRESERVATION OF YIELD SPREAD PREMIUMS (YSP) This letter is to express the importance of preserving Yield Spread Premiums (YSP) for mortgage brokers. I believe the primary benefit of maintaining YSP is for the BORROWER, not the mortgage broker. The person the proposal purports to protect, the consumer, receives the most benefit from YSP by making lower closing cost loans available . WHY SHOULD YOU LISTEN TO ME? I have been a mortgage broker for nearly 30 years. I have been a banker, a mortgage banker, and a mortgage broker for 45 years I compete with banks. I have originated only conforming loans - conventional (FNMA, FHLMC), FHA, and VA mortgage loans, capturing purchase business from Realtors. Not all mortgage brokers are non-conforming rip-off people. I'm not stupid. I have a bachelors degree from Yale University. I have a Masters degree in Business Administration, Finance Major I worked for a commercial bank for fifteen years. I owned my own company for 25 years, one of the leading lenders in our community and marketing area, originating or overseeing thousands of home mortgages I was a founding member of the Mortgage Bankers Association of Northwest Ohio, and have been president three times I have served on the board of the Ohio Mortgage Bankers Association I have taught Continuing Education classes (approved by the Ohio Department of Commerce) on mortgage financing at the request of Realtor Boards of a dozen counties in northwest Ohio and mortgage financing seminars in southeast Michigan. I've taught finance and investment classes at two universities I have the knowledge, experience, and integrity to address the issue • I believe the primary benefit of maintaining YSP is for the BORROWER, not the mortgage broker. The borrower benefits by savings thousands of dollars in closing costs since the lender doesn't have to charge origination fees when the brokers has the option of earning YSP. Yet the drive to eliminate YSP's for mortgage brokers appears to be from consumer groups and regulators who don't grasp the benefit for the consumer, and who don't understand that mortgage brokers price their loans in an identical manner as commercial banks and mortgage bankers who rely on the secondary market for pricing. When I first began originating mortgage loans in Toledo, every bank in town charged two points - "a one

percent origination fee, and a one percent discount point". And decades ago, it was difficult to get loans with less the 20% down payment. Borrowers had to have a substantial amount of cash to buy a home and get a mortgage loan. One of my wholesale lenders showed by how we could reduce Borrowers' closing costs by thousands of dollars by offering loans with no points. I was the first mortgage lender in Toledo who offered that option. Borrowers loved it, and soon we were among the top lenders in Lucas County, Ohio, and southeast Michigan, out-producing many of the major banks and S & L's.
Eventually it caught on and banks began offering the no-point option, which remains the norm in our area today. Since we first offered the no-point closing cost option, I would say that nearly 99%+ of my Borrowers have chosen it.
Would you take that option away from the consumer? You will, if you prohibit YSP from wholesale lenders to mortgage brokers. My customers have always had the option of paying points and getting a lower rate. Yes, the interest rate is higher on a no-point loan, and yes, if a Borrower chooses to pay points, he could have a lower rate. But if I can offer an interest rate with a no-point option and still offer my Borrowers a lower rate than they can get from our banking competitors, why would you want to take that option away from mortgage brokers?? More importantly, why would you want to take the option away from the BORROWER?? What's important to the Borrower is what he pays in interest and APR. That's how borrowers shop for loans. If my interest rate and APR are lower than the banks, then YSP has NOTHING to do with the borrower's decision!
The intent of RESPA was to disclose costs paid by the borrower - not fees paid to the broker or lender by sources other than the borrower. A mortgage broker's ability to offer a range of rates with varying YSP's also allows the broker to offer lower interest rates than competitors.not necessarily higher rates.
Pricing flexibility can be used to improve a customer's loan term, and is done so more often than the handful of lenders who abuse YSP. If YSP compensation is taken away from brokers, consumers will turn to banks for lower closing cost options. Then banks will have less competition, and mortgage rates will increase. Don't think banks won't increase rates given their behavior in credit card interest and fees abuses. Banks are probably encouraging taking YSP's away from brokers, knowing it will put brokers out of business, and eliminate their competition. There's a reason mortgage brokers recently accounted for over 50% of the retail mortgage market. Very simply, a legitimate mortgage broker can offer a wider selection of loan programs, offer lower interest rates, and provide better service than large banks. In the decades since YSP disclosure has been required for brokers, I have NEVER had a single borrower call me up when he was shopping for a mortgage loan and ask me what my YSP is. I don't care if it's because they don't understand YSP. The point is, it doesn't matter!! There is no other product or service in the world where a consumer shops based on the income or profit of the provider. Consumers shop based on their own costs, what they have to pay (interest, closing costs), not on how much the lender (product or service provider) gets paid. Yield spread premium is the difference between the wholesale and retail cost of money. Money is purchased at a lower price, re-sold at a higher price. That's the way the entire economy works for every product and service in the world. Consumers/buyers/borrowers look at retail price. How do banks earn income when they offer a loan with no origination fee (no-point loan)? They buy the money from Fannie Mae and/or Freddie Mac, and they re-sell to Borrowers at a higher rate. If the borrower chooses a higher interest rate, the bank makes a profit on the sale of it's funds. This is the mirror image of YSP paid to brokers. It is exactly the same thing, even thought you may not choose to call it YSP when banks get their income on the marked up cost of money from the secondary market. (A rose by any other name would still smell the same.) How do you answer this.if disclosure of YSP by brokers is so

important that regulators feel borrowers need to be told the YSP income..why don't banks have to disclose their YSP or mark-up on the cost of their funds? I've worked national and regional lenders, one a division of Wells Fargo Home Mortgage, the other, a predecessor to Fifth Third Bank. They make their money the same way as a mortgage broker by buying funds from Fannie and/or Freddie at one cost, they mark up the price, and they re-sell the money as mortgage loans to consumers. How is that any different than what mortgage brokers do? The rate sheets that banks give to their loan originators looks identical to the rate sheets that wholesale lenders give to mortgage brokers. As a former originator with a division of a national bank, I had the same opportunity to charge a higher rate to the customer with the same incentive that I could increase my commission income and my company's income. On the whole I believe banks make a bigger profit and a bigger mark-up on their mortgage funds than legitimate mortgage brokers. Bank costs are higher, and the return to share holders is more demanding. "Secondary Market" transactions are exempt from RESPA disclosures. That's why banks don't have to disclose their yield spread (profit on the sale of the loan; the difference between the wholesale and retail cost of money. The Financial Accounting Standards Board (FASB) enumerated some guidelines for a loan to be considered as a secondary market transaction. In the case of a mortgage broker, if (1) the broker was independently owned; (2) if the broker represented several lenders; (3) if the broker could freely choose among its wholesale lender alternatives for product and pricing; (4) if the broker was able to set it's own interest rate pricing; and (5) if the broker paid it's own expenses - then the sale of loan by a mortgage broker to their wholesale loans was considered to be a secondary market transaction.which would be exempt from disclosure just like banks. These characteristics exist with mortgage broker originated transactions, and the loan terms and costs are the same to the Borrower regardless of whose funds are at the closing table. YSP's are a non-issue, regrettably the result of perpetuating an erroneous decision made years ago. Over a decade ago, I believe that HUD erred in making the determination that mortgage brokers should disclose "yield spread premium" (YSP) when a transaction is "table funded" (when the wholesale lender provides the funding at closing). The first error is interpreting the payment as a "kickback". The correct interpretation is "profit on the sale of the loan", exactly like banks and mortgage bankers. Two borrowers could apply for similar loans, one at a bank, and another with a mortgage broker (and the wholesale lender might even be the wholesale lending division of the same bank). Both borrowers could be quoted the same loan amount, the same interest rate, the same monthly payment, the same closing costs, and the same APR. The bank uses their own funds to close, the broker would get "table funding" from his wholesale lender, but the loan terms were otherwise identical. But the broker would be required to disclose his profit or YSP. hy? There is absolutely no benefit to the borrower. The borrower could care less whose funds are at the closing table, just so the loan is funded. But the broker would be required to disclose YSP or profit. BORROWERS DECISION .if you were a Borrower, which would YOU choose? Scenario 1 Lender: mortgage broker Loan amount: $100,000 Interest rate: 6.00% APR 6.094% Points: 0 Other finance charges: $1,000 Monthly loan payment: $599.55 "YSP" 101.50, $1,500 Scenario 2 Lender: mortgage broker Comparing to Scenario 1, the borrower gets the Loan amount: $100,000 same deal. The borrower is not any better off Interest rate: 6.00% nor worse off because the lender's YSP is lower. APR 6.094% Points: 0 Other finance charges: $1,000 Monthly loan payment: $599.55 "YSP" 101.00, $1,000 Scenario 3 Lender: mortgage broker Comparing to Scenarios 1 and 2, the borrower Loan amount: $100,000 gets the same deal. The borrower is not any Interest rate: 6.00 off nor worse off because the lender's YSP is APR: 6.094% higher.

Points: 0 Other finance charges: $1,000 Monthly loan payment: $599.55 "YSP" 102.00, $2,000 Scenario 4 Lender: mortgage banker (funds it's own loans) Comparing to Scenarios 1, 2, and 3, the Loan amount: $100,000 borrower gets the same deal. The borrower is Interest rate: 6.00%   not any better off nor worse off.. The decision is APR: 6.094%   made without knowing the YSP. Points: 0 Monthly loan payment: $599.55 Other finance charges: $1,000 "YSP" (101.75 not disclosed because it funds it's own loans) $1,750 Scenario 5 Lender: bank   Compared to Scenarios 1, 2, 3, and 4, this is not Loan amount: $100,000   the best deal for the borrower. The decision is Interest rate: 6.125%   clear, but it's not based on YSP since the bank is APR: 6.220%   not required to disclose it. Points: 0 Other finance charges: $1,000 Monthly loan payment: $607.61 "YSP" (102.25 earned but not disclosed, $2,250)   Did the disclosure of YSP help you with your decision at all? It wouldn't have helped me. I would look at the interest rate, monthly payment, other finance charges, and APR. The YSP would not affect a borrower's decision at all. The borrower gets the same terms regardless of whose funds are at the closing table.another question a borrower has never asked me. If the information didn't help you (it wouldn't help me.), then ELIMINATE THE DISCLOSURE! But don't eliminate YSP for brokers. In summary: • YSP for mortgage brokers should be retained. • YSP is the only way brokers can offer borrowers the benefit of no-point loans and low closing costs. • If brokers have to earn income by charging points, borrowers will seek other financing options. Brokers will go out of business, banks will have less competition, and borrowers will end up paying more in the long run. • YSP for mortgage brokers is the mirror image of the way the secondary market operates. FNMA and FHLMC sell bonds to investors. FNMA /FHLMC sell funds to banks and other lenders at a higher price and make a profit. Banks and other lenders in turn mark up the price to cover their costs and sell at retail price to the public, building in a margin covering servicing costs, operating costs, and profit. Mortgage brokers don't do anything differently than a mortgage banker or bank in pricing, and banks don't do anything differently than brokers in pricing. • If the broker's business model meets the guidelines of FASB (Financial Accounting Standard Boards), YSP should not even be disclosed since it is a secondary market transaction exempt from RESPA. It's frustrating when two governmental agencies interpret the same issue in conflicting ways. • If the disclosure of YSP is so important for a borrower to make a decision, they should be given the same information by banks and mortgage bankers. We're seeking sensible and reasonable regulation. Jack Howard 5604 Plantation Drive Toledo, OH 43623 Savage Mortgage Services, LTD 4427 Talmadge Road - Suite L Toledo, OH 43623