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Subject: Reg Z - Truth in Lending

Comments:

Date: Dec 24, 2009

Proposal: Regulation Z - Truth in Lending - Closed-end Mortgages
Document ID: R-1366
Document Version: 1
Release Date: 07/23/2009
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Dear Federal Reserve Board: I believe this amendment will lead to increased consumer costs due primarily to fewer consumer choices and ultimately reduced competition. I also believe that currently there are adequate regulatory safeguards to protect the consumer from the vast majority of unscrupulous loan originators. I. The Proposed Regulation Will Lead to Fewer Consumer Choices Currently, the Yield Spread Premiums (YSPs) and associated interest rates offered by our various lenders give us the flexibility to custom tailor several rate and closing cost options that our clients can easily shop and evaluate against other lenders. The single most popular option, especially on refinances, is where we get enough YSP to pay for all of the client's closing costs in escrow. This makes it even easier for the client to shop for the best deal because, knowing that the upfront costs are entirely paid by the loan originator (through the YSP), the client merely needs to call as many lenders as they want and find the best rate on this "No Cost" basis. If this regulation passes and we are limited to fixed compensation agreements with various lenders, these compensation agreements will not, in most cases, give us enough compensation to pay for all of the closing costs. Thus, the upfront cost to the client would go up. This same principal also applies to purchase transactions - we use the YSP to pay some or all of the homebuyers closing costs, which is especially beneficial to first-time homebuyers who are short of cash, and can barely scrape up enough money for the required downpayment. By our being able to pay for the homebuyers closing costs; this allows them to allocate more of their funds to the downpayment, thus lowering their loan amount and associated finance costs during the duration that they own the home. Specifically, with the current YSP options, we give the prospective buyer or homeowner several choices; here are three of them: 1. the lowest possible rate and they pay all of the closing costs 2. a slightly higher rate (where we get more YSP), and then we pay a commensurate amount of their closing costs 3. a still higher rate and YSP and we pay all of their closing costs. We then show the client the Total Costs of each of these loan options modeled over any period of time they are interested in (5 years is the most typical). In this way the client can more easily select which combination of rate and closing costs optimizes his

monthly payment, his interest rate, his closing costs, and the Total Costs of all of these over his anticipated investment period. OUR CLIENTS LOVE THIS AND EMPOWERS THEM TO MAKE THE MOST INTELLIGENT CHOICE FOR THEIR SPECIFIC CIRCUMSTANCES. Without YSP being available, we would not be able to provide all of these options, thereby eliminating potentially important choices to the client. II. The Regulation Will Lead to Reduced Competition The major lenders and mortgage bankers will still be able to provide "No Cost" loans through their retail channels because YSP does not need to be disclosed by retail loan originators working directly for large banks and mortgage bankers. Already Bank of America, Wells Fargo, Chase and Citimortgage have increased their market shares DRAMATICALLY over the last two years partly because they do not have to disclose YSP to their borrowers, (while mortgage brokers have to) and partly because the underwriting guidelines and documentation requirements for loans originated through direct lenders are more lenient than for mortgage brokers. Elimination of the YSP for mortgage brokers will cause this shift to large banks to accelerate. Wholesale banks and mortgage bankers, and their mortgage brokers will have to shut down their operations leading to far fewer competitors in the marketplace. Fewer competitors almost always leads to increased prices through collusion and collaboration at high levels. Do you really want the "Big Four" originating 90% of all mortgage loans in the U.S., especially when they all had to accept the BILLIONS IN TAXPAYER-PAID TARP BAILOUTS caused by their banking practices that clearly took on too much risk?? These overly-risky banking practices included the design and implementation of Option ARMs with negative amortization, Stated Income and Stated Asset loans (LIAR LOANS), loans to 100% or more of the value of the property, and Subprime Loans whose interest rates and monthly payments skyrocketed beginning the third year of the loan. Mortgage Brokers certainly were a part of originating those loans, but it was the large banks and Wall Street investment houses that originally designed them and first offered them into the marketplace. Keeping the YSP will allow more honest mortgage brokers to continue doing business in this difficult environment thereby putting competitive pressure on the large banks and mortgage bankers to keep origination costs down. III. There Are Already Enough Regulations to Adequately Protect the Consumer I believe the advent of the vastly increased amount of regulations over the last 12 months, for example, via the Home Valuation Code of Conduct (HVCC), the new Good Faith Estimate of Closing Costs (GFE),the revised Truth In Lending (TILA) notices; provides the consumer with much greater protection from unscrupulous mortgage originators. I have been in the loan business over 25 years, and it is a pleasure to see the dishonest and unscrupulous originators driven out of business. In addition, there is now a very high educational bar to achieve for new people to get into the mortgage business, which has led to more professionalism in our industry. In particular, the new GFE affords the consumer/client more information with which to shop for the best possible deal in the marketplace. This goes into effect in just a few days (January 1, 2010). Why not see how this works for the consumer before you limit their mortgage choices by eliminating YSP?? Almost all of our clients are very educated, intelligent and analytical professionals (engineers, scientists, doctors and lawyers) who make it a point to thoroughly shop us on every transaction, even if we have done numerous loans for them over the years. Eliminating YSP will not give them any further advantage to get the best possible mortgage deal in the marketplace - but in fact will reduce their choices and ultimately cost them more money. I do agree that the dishonest and unscrupulous mortgage originators need to be driven out of business - but elimination of the YSP is not how to do it. The existing and upcoming regulations will take care of the vast majority of dishonest loan agents. By eliminating the YSP, you essentially "throw out the baby with the bathwater" because we will lose very honest and

hardworking mortgage originators - in my opinion there has to be a balance struck between protecting the less intelligent consumer from dishonest originators, and at the same time ELIMINATING IMPORTANT MORTGAGE LOAN OPTIONS FOR A VERY LARGE PORTION OF THE POPULATION. Lets let the existing regulations, especially the new GFE, work to protect the less savvy consumer so that the more intelligent consumer can still have the mortgage loan choices that they need and want. Thank You For This opportunity to comment. Joel Ferrill
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