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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:
I own and operate a small mortgage broker business in San Diego, CA. I have several concerns about the proposed regulations essentially eliminating a mortgage broker's ability to earn yield spread premiums as part of their compensation. YSP's have served a very valuable purpose for consumers by allowing them to finance their closing costs through their interest rate so that they don't have to drain their savings. This is especially important for first time homebuyers who usually struggle to come up with a sufficient down payment let alone extra money for closing costs. If mortgage brokers are no longer able to earn YSP as part of their compensation then no cost loans will be nearly impossible, and the consumers will have significantly less choices for financing loans and will have to spend more money out of their savings. That could be a severe burden to many first time homebuyers and is likely to significantly reduce the number of first time buyers, which will further impede the housing and keep the economy in trouble. In lieu of the YSP the proposal is for all loan originators to be paid a flat fee by each different lender, which is negotiable amongst the different lenders and can be different with each individual loan originator. This type of system will not accomplish its goal of protecting the consumer from being charged a higher rate, which allegedly is what the elimination of YSP is aimed at accomplishing. By making flat fee arrangements mandatory and allowing them to be negotiated between originators and lenders, this encourages a broker to always choose to go with the lender offering the highest flat fee regardless of whether that lender is offering the better interest rate. Therefore, this system would actually encourage the steering of business towards a particular lender with no regard for whether the consumer is being offered the best rate and that would lead to a reduction in competition, which by basic economic principles would lead to higher costs for consumers. If the business is concentrated in fewer and fewer lenders, then those lenders will have little incentive to keep their costs down and will begin to raise the costs for consumers. A further problem with the flat fee concept is that the lender will adjust the rate to a rate that allows them to pay the negotiated flat fee based on the size of the loan, and therefore the smaller sized loans will wind up with significantly higher rates, which is

exactly what the regulation is trying to eliminate. In conclusion, the proposed regulations will not work to accomplish what they are supposed to accomplish, and there are better solutions to address the alleged problems that are trying to be fixed. The elimination of YSP does not work and YSP actually serves a very valuable purpose for consumers, and consumers should have the choice of obtaining a lower cost loan or no cost loan. I do agree that additional disclosures to consumers about YSP are necessary, which the new GFE is trying to do, but the complete elimination of YSP is detrimental to the consumer. I strongly urge the Federal reserve to reconsider the proposed regulations and at the very least take some time to evaluate whether the additional disclosures of the new GFE are working before hastily taking away a very valuable consumer choice. Thank you for considering my concerns. Jon Nathenson Nathenson Mortgage Services