From: Rose City Realty, Inc., Preston E Howard

Subject: Reg Z - Truth in Lending

Comments:

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Proposal: Regulation Z - Truth in Lending - Closed-end Mortgages
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To the offices of the Federal Reserve: I am writing today to express my concerns with regards to the current proposal that is being considered regarding the changes in mortgage originator compensation. This proposal will completely stifle competition. Not only does it create conditions that would encourage steering, but it also doesn't provide any incentive or motivate originators to work with borrowers with difficult files and challenging financial profiles. Originators will only seek to work with the "crème de la crème" borrowers, as that represents the best use of their time given their compensation plan. Hence, this proposal will damage small business, as many originators will stop lending because their already heightened workload will require higher volume, while creating an environment of less concentration (on any one borrower's file), less motivation to work hard, and less compensation for their work completed. In the end, bad originators would work the system, while good originators would be driven away to other industries. At that point the system becomes totally broken, as the most reputable of brokers extract their talents from the market place and make use of them elsewhere. With regards to flat fee origination charges, loan officers would be encouraged to steer loans to lenders with higher flat fees. Originators would have no motivation to provide financing to borrowers with needs for smaller loans. These smaller loan balance borrowers would be faced with higher total closing costs. Many hard working honest loan originators would be forced out of business unfairly, as compensation will not reflect the amount of work that was allocated to closing a loan. Many loans take many months of hard labor to complete, and flat fees won't appropriately compensate a seasoned professional for the efforts that they have put in on behalf of their client. A doctor receives different compensation for performing an annual physical versus a quadruple bypass, while an attorney is compensated differently for a one hour consultation on putting together a will versus defending a large corporation in a class action lawsuit. Mortgage brokers assume the same type of financial

risks in providing their services too. As such, they deserve to be compensated appropriately for the work that the put in to get transactions to close.
Finally, eliminating the yield spread premium is not good practice. No cost loans would become nearly impossible, as the elimination of the yield spread premium provision would render a broker incapable of completing a loan that would compensate him/her for their efforts. Many of my peers in industry only (or mostly) offer no-cost loans to their customers as their competitive tool. Accordingly, without this provision, mortgage brokers who earn their living this way would be eliminated, and an additional means for the market to provide competition is eliminated. Moreover, many buyers psychologically prefer no cost loans or "no point" loans and will be injured by flat fee arrangements and the consumer will have less pricing options. In the end, I believe disclosure, criminal penalties, and strict enforcement are better tools for policing our industry, otherwise, honest, respectable, professionals of high integrity will exit the industry and leave it in the hands of amateurs working their way to a higher paying job. Many thanks in advance. Preston E. Howard Rose City Realty, Inc.