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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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December 22, 2009 To: Federal Reserve Board RE: Comments regarding Prohibited Payments to Loan Originators and Steering Federal Register/Vol. 74, Section V-E pages 43240 to 43241 After reviewing the above section and the proposed changes I would like to address several of your proposed changes. The first comment relates to "If a consumer directly pays the loan originator, the proposal would prohibit the loan originator from also receiving compensation from any other party in connection with that transaction." My understanding is that if a loan origination fee were to be charged to the consumer that the broker loan originator could not be paid a yield spread premium and a banker loan originator (either correspondent banker or FDIC banker) could not be paid a Service Release Premium. In economic substance this will hurt the consumer in either getting a higher interest rate if no origination fee is charged or higher loan origination fees are charged to get the same interest rate if a yield spread premium or service release premium is received. I hope I am correct in understand that this would apply to both brokers and bankers not just to brokers. After all in substance whether you call payment to the originator a yield spread premium or service release premium is in substance identical. To only apply it to ysp and srp is not consistent with the economics of the interest rate and creates an unfair advantage to the mortgage banker and not in the best interests of the consumer by not creating a competitive playing field. Therefore, this proposal should be eliminated as it would not be consistent with the economics of the the transaction, puts the mortgage broker at a competitive disadvantage, and does not allow the consumer to adequately compare the financial substance of the transaction which seems to be the intention through out Section 226.4. The next comment relates to "The Board also seeks comment on an optional proposal that would prohibit loan originators from directing or "steering" consumers to a particular creditor's loan products based on the fact that the loan originator will receive additional compensation even when that loan may not be in the consumer's best interest. The Board solicits comment on whether the proposed rule would be effective inn achieving the state purpose. In addition, the Board solicits comment on the feasibility and practicality of such a rule, its enforceability, and any unintended adverse effects the rule might have." Basically the proposal is trying to dictate INTEGRITY of the loan originator through compensation guidelines that could adversely impact the consumer. Either a loan originator has integrity or does not. Controlling or restricting compensation is not going to instill INTEGRITY in a loan originator. I suggest that whenever client has a prepayment penalty that the originator is required to disclose interest rates and related costs for a comparable loan without a prepayment penalty. Also

this proposal might be obsolete as it seems to attempt to eliminate the abuses in the Option ARM negative amortization loans. In today's lending environment with Fannie Mae, Freddie Mac, FHA and VA loans there are not prepayment penalties. The language of the proposal seems to apply to these loans as well. This definitely could adversely hurt the consumer. It seems that the proposal was directed at the abuses in option arm loans, or subprime loans that no longer exist as they once have. I have a few other observations and comments relating to the Federal Register. "Substantial Injury" - This entire section is inaccurate. Yield Spread Premium does not hurt the consumer any more than service release premium. Just when it seems like the board understands the impact of each you throw in a section like this. The bottom line is what is the interest rate that the consumer would receive from a broker versus a banker regardless of how much they get paid? If the interest rate is lower than a banker's interest rate what does the consumer even care about how much a broker gets paid? The consumer is focused on their interest rate not on how much a broker gets paid. I was about to commend you at equating yield spread premium and service release premium as being in substance one in the same. However I cannot do this as you continue to write proposals that are conflicting to the mortgage broker and banker industries. I have worked for and FDIC mortgage banker, correspondent mortgage banker and owned my own mortgage broker company. No matter how much the Mortgage Bankers Association and the their lobbyists try to spin the definition of service release premium it is the same as yield spread premium and we ALL get paid the same way in this industry. Consumers care about two things and neither one is how a broker gets paid and yield spread premium. The consumer cares about their interest rate and the closing costs. I respectfully equest that you grasp this concept rather than trying to put brokers out of business with payments made to them by the consumer and/or creditor. Brokers get paid EXACTLY the same as bankers. To apply rules to one group of lenders and not the other causes even more confusion to the consumer. I am an advocate for full disclosure and transparency to both bankers and brokers. You don't seem to understand or if you do understand you are intentionally trying to hurt the mortgage broker in that the mortgage broker probably has less ability to project what they will get paid on a transaction than a mortgage banker as it deals with several lenders all of which pay the broker different amounts for the same interest rate. The new "Good Faith Estimate" is a train wreck waiting to happen in 2010. Nobody seems to have a universal and consistent understanding of it. The same will be true by your proposed changes. You cannot dictate INTEGRITY. One either has it or not. Perhaps with the new SAFE licensing rules those that have no integrity will be thrown out of the business so that you can devote your time to more productive things to actually help the consumer. Thank you for the opportunity to submit comments to your proposed changes. I respectfully request that you seriously consider them. I have made these comments in a bona fide attempt to represent what is in the consumer's best interests as well as the Board and TILA objectives. As a small mortgage broker I am concerned on many of your proposed changes as they will have a significant impact on my ability to be competitive with mortgage bankers and my future as a going concern. I have will continue to act in the best interests of my clients. Restricting my compensation will only put me out of business and my clients will lose an advisor that they trust is acting in their best interests to achieve their short and long term goals of home ownership and investment objectives.