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When considering YSP rules, it is important that the FRB review their own study on Mortgage Broker Disclosures which contained a fatal misunderstanding of Mortgage Broker (a company) and Mortgage Originator (an individual). This indicates the FRB has much to learn about the mortgage industry before attempting to regulate. STUDY: http:/ /ww w. federalreserve.gov/newsevents/press/bcreg/20080714regzconstest.pdf Fatal Flaw of Study: It does not recognize a Broker is a company (not a loan originator) and can also be a Lender if it provides a loan as a CREDITOR per TIL regulation; instead improperly treats Broker as an individual. The individual is a Mortgage Loan Originator (MLO) as defined by the SAFE Act (http:/ /ww w. federalreserve.gov/newsevents/press/bcreg/20090601a.htm) Yes oddly enough, MLO that work for banks are treated differently than nonbank MLO even though they provide the exact same services as bank MLO. Thus, any part of this study working on designing AGREEMENTS that include COMMISSION IS FLAWED AS MLO MUST BE TREATED EQUALLY IN THE EYE'S OF A CONSUMER SHOPPING A MORTGAGE. This includes MLO that work for Broker companies. Just as consumer shopping for shoes, computers, medical services, houses etc. do not know what the commission being paid to the individual serving them; it is not relevant. The consumer needs to know their direct cost, in the case of a mortgage loan that is direct interest rate and direct closing cost. An interest rate is an interest rate (it may be used to pay a company's operating expenses which are irrelevant to a consumer) and is paid over the life of the loan. Direct closing costs are paid for services provided to obtain the interest rate. These two disclosures are exactly what the consumer needs when shopping for their mortgage. Anything more than that is an attempt to confuse the consumer with unequal comparisons and irrelevant to consumer. For the Board to dictate to a consumer that they should shop for the lowest interest rate and closing cost completely ignores what is most important to a consumer when obtaining a mortgage, TRUST (see page 19 "Frustrations & Suprises" of Fed's Study: http://federalreserve.gov/boarddocs/meetings/2009/20090723/Full%20Macro%20CE%20R eport.pdf . Trust that the person would not violate the privacy of the personal information provided to them. Trust that the terms of their loan (including direct interest rate, direct closing cost and if any fixed/adjustable rate features) did not change and if they had to be changed, that it was not a surprise at closing and it was a function of the applicants information not know to originator at time of disclosing direct closing cost, direct interest rate and fixed/adjustable features. Remember, the trigger for initial disclosures is originating company receiving income, asset/liability information and property address provided by client and not upon this information being verified. If there is a change in this information and it causes the disclosed information to change, then it is required by TIL that it has to be redisclosed at least 3 business days prior to close. There maybe a multitude of reasons the disclosed information may change, but if it causes the APR (a number that has little comprehension by the consumer regardless of the how it is disclosed-see page 10 of Fed's Study: http://federalreserve.gov/boarddocs/meetings/2009/20090723/Full%20Macro%20CE%20Report.pdf this is covered by existing regulations. Oddly, a change in fixed/adjustable rate terms is not a trigger of redisclosure under current rules. Board's goal was emphasizing the IMPORTANCE OF SHOPPING for a loan. This is in contradiction to the Board's study http://federalreserve.gov/boarddocs/meetings/2009/20090723/Full%20Macro%20CE%20Report.pdf Which showed TRUST as being the most important factor to a consumer when choosing a loan and MOST OF these consumers where SATISFIED with their loans (see page 20). Page 5: The purposes of the amendments were to restrict home mortgage lending and servicing practices that the Board found to be unfair or deceptive; to ensure that mortgage loan advertisements are accurate, balanced, and not misleading; and to require that certain disclosures be provided to consumers earlier in the mortgage loan process. One of the Board's proposed amendments would prohibit creditors from paying mortgage brokers unless the mortgage broker disclosed to potential customers three things: a) the total amount of compensation that the broker will receive for arranging a loan; b) that the consumer will pay that entire amount, even if some or all is paid by the lender; and c) that such a payment from a lender could influence the broker to offer the consumer loan terms or products that are not the most favorable the consumer could obtain. Comments: Disclosures should be the same for all originating companies so as not to confuse or disadvantage the consumer. The Federal Trade Commissio's Study: The Effect of Mortgage Broker Compensation Disclosures on Consumers and Competition: A Controlled Experiment showed this occurs when a Mortgage Broker company originating a loan has a separate disclosure let alone an entirely separate Agreement than does any other originating company. The Fed admited its desire for Fed's Broker Agreements regardless of loans price to consumer when it first proposed this rule in January 2008. This unique "Agreement" causes a disadvantage to consumer as identified by the above mentioned Federal Trade Commission Study. Page 6: Why would a consumer need a Unique Agreement only with a Mortgage Broker originating source and not any other originating source? How is the same interest rate offered to a consumer by a Broker different than a nonBroker? This will certainly confuse a consumer shopping as if commission will not be listed on all sheets when doing a comparative analysis. Broker's (a company that originates loans and uses as source of funding loan the party that will purchase loan from company; this differs from a company that originates and funds the loan from a warehouse line or its own funds-I believe this was not distinguished in this study and thus makes study incomplete from a consumer's standpoint) commission was easy to understand. What was confusing was when there was an attempt to relate this commission to interest rate which is irrelevant to a consumer as only a Broker company would disclose this if it was not paid directly by the consumer. If paid directly by the consumer, it is disclosed by all companies originating loans. Thus, it clearly is irrelevant to the consumer. The consumer is not shopping a commission paid, they are shopping their interest rate and closing cost and/or settlement cost. One would hope this is the objective of Federal Reserve, not disadvantaging consumers and mortgage brokers as identified by FTC study of 500 people and validated on page 7 of this study. This is why the Fed's staff declared that they did not want to create a disclosure regarding Broker commission back in July 2008 when this report was issued. It was not until Bernanke declared war on Brokers in July 2009 that this issue is pushed. Pure politics otherwise the Fed staff is incompetent with their July 2008 decision. Page 19. Note how the consumer has questions as to how the YSP is determined. It is not clear if the presenters properly explained that each Investor has its own unique value of YSP that it assigns to an interest rate. Thus, a 6% rate at one investor may pay 1% YSP and another will pay 1.5%. To the consumer, the rate they are directly paying is the same and this is what they would be shopping, not the YSP. The idea of labeling broker as being in conflict with the consumer does not make sense to the consumer (see pg 20 A few were not surprised that the conflict existed, but were confused by the fact that the broker was disclosing the conflict to them.). This makes sense, as all nonBroker MLO are not labeled as having a conflict with consumer. As you continue to read this study, you clearly see why Fed staff said to stay away from creating this Agreement. On page 21, it reinforces the concept that the majority of consumers were happy with the mortgages. They do not need the government telling them how to shop for a mortgage. On page 22, it does not explain a 6% interest rate with zero points is the same with broker and other nonbrokers (again, Brokers can be lenders so this is again misrepresenting to consumers the FACTUAL lending structures). As well this study continues to confuse that a Broker is a company that has LO just like a so called Lender. Thus, it misrepresents to consumer that Broker is only a LO. Again on page 24, it shows how this whole Agreement would likely make a consumer less likely to work with a Broker. Page 25 clearly indicates the bias this Agreement create against Broker including laughing and expressing disbelief. As in Los Angeles, most participants were initially struck by the fact that brokers were paid more for providing loans with higher interest rates. In fact, several laughed or expressed disbelief about how broker compensation worked because they found it so unexpected. Some participants commented that even if what they read were true, brokers would never give them that information. Page 27 clearly indicates the bias of even the those conducting the interviews: However, participants still did not understand (or, in some cases, refused to accept) a key point of the agreement- that brokers receive a higher commission for arranging a loan with a higher interest rate, and that this fact creates a financial incentive for brokers not to offer the best possible loan for their customers. In fact, several participants did not even understand that brokers have some latitude in what loan terms they offer to their customers. As in previous rounds, participants aso continued to misunderstand the impact a lender paying a broker's commission would have on the borrower's interest rate, with most participants assuming that they could add the broker's commission to their loan amount if they wished. Because of these continuing misconceptions, another set of revisions was made to the language being tested before the final round of interviews. These changes are described in the following section. Page29 again shows bias this Agreement creates against Brokers. In some cases, this misconception that the broker would receive two commissions led to a bias against brokers, because participants were concerned that they were being overpaid for their services. Page 30 again shows bias this Agreement creates against Brokers because it trys to do something that is not true and that is treat Broker as an LO when in fact it is a company. It also reinforces the Federal Trade Commission findings that

YSP is something that should not be disclosed because a consumer shops direct interest rate and direct cost. Conflict Between Broker Compensation and Best Possible Loan Terms   As in Los Angeles, most participants understood upon their first reading of the agreement that the broker would have a financial incentive to provide them with higher-interest rate loans. Again, however, participants' preconceived belief that brokers were working in the best interest of borrowers made this conflict difficult to accept. As a result, many became confused or reverted to their prior assumptions. As one participant commented, "I don't want [the broker] to increase [the interest rate]. It doesn't make sense. It's not logical." Another said, "Why are they charging me a commission and a higher interest rate? [If they find me a loan with a high rate] then why would I pay them an additional fee?" After they read the written agreement they were given, some participants were shown the following alternative text: "You may qualify for a range of loan products and interest rates, and we will choose which ones we will offer to you. However, lenders are willing to pay us more for selling loans that are more profitable for them, such as loans with a higher interest rate. This means that we have a conflict between getting you the best possible loan terms and earning the highest possible compensation." Unanimously, participants felt that this text was the clearest alternative for describing the conflict that brokers have in regards to their compensation. However, like other versions used in this round, this text led to the misconception that the lender payment that brokers would receive was in addition to the commission shown at the top of the agreement (see above). This bias continues on page 31as it does not give them a clear understanding of discount points for buying down an interest rate as presented by LO for nonBrokers due to terminology of trying to push it as a commission only when received by Brokers. Almost all participants commented that the first option (paying the entire commission at closing) would be the least costly. As in earlier rounds, paying the commission through an increased interest rate was consistently seen as the least desirable option, because people instinctively wanted to keep their rate as low as possible. A few participants even expressed some resentment towards the second and third choices, because of the assumption that borrowers who chose these options would end up paying more than the stated amount. In some cases, the added specificity in terms of how the commission could be paid engendered negative feelings toward the broker. A few participants commented that the agreement made it seem that "all the broker cares about is how he is getting paid." They seemed to resent the fact that so much attention was being focused on the commission before the broker performed any services for them. Participants were not able to relate the reference to the "lender payment" that brokers received for higher interest rate loans (e.g., the second bullet in the version used on May 13) to the part of the agreement that described how the lender could pay the broker commission (the fifth bullet on the same agreement). While these bullets were intended to describe the same process in two different ways, participants did not perceive them as connected. They saw the first piece of text as a description of an additional payment that the brokers would receive for their services, while the second piece of text referred to a method through which they could pay the commission for which they were responsible. Comparison of Compensation Paid to Brokers and Loan Officers   Most participants understood that loan officers who work for lenders would receive a commission for making a loan. However, most did not understand that loan officers' commissions would also be based on the interest rate of the loan they provided, just as brokers' Would. Most seemed to thnk that the commissions they would pay if they worked directly with a lender would be smaller, or that loan officers received a flat rate per loan while brokers did not. There also continued to be a few who were less concerned about loan officers' commissions because they assumed that they would be paid

by the lender, not the borrower. Page 32 has the biggest reinforcement to FTC's study that all this extra effort to confuse the consumer with a Unique Agreementt for Brokers. Conclusions The agreements that were used in this round were more successful at communicating several concepts to consumers. In each case, however, these improvements were at the expense of consumer understanding of other aspects of broker compensation. For example: Participants in this round were more likely to understand that a broker could select from a range of products and interest rates when choosing what loan to offer them, and that the way brokers' compensation is structured provides an incentive to choose loans that are not in their customers' best interest. Because this information was so unexpected to consumers, however, some seemed to disregard or refuse to accept it. In addition, the language that was used led to the misconception that brokers would be receiving a separate payment from the lender, in addition to the amount shown on the agreement, which in turn led to an increased bias against brokers. The increased specificity with which the agreements addressed the different ways that the commission could be paid did lead to greater understanding that if a lender pays the commission, the interest rate on the loan will be increased. However, participants did not connect this to the conflict of interest discussed elsewhere in the agreement. In addition, the increased specificity of the agreement led to some bias against brokers for participants who felt too much attention was being focused on the broker's compensation. Participants in this round were more likely to understand that loan officers who work for banks also receive commissions, and that these
commissions also depend on the interest rate of the loan. However, participants generally still believed that they would save money by working directly with a lender, even though the agreement explicitly stated otherwise. Pages 34 & 35 clearly show to those in the industry that if the Feds mandated using an Agreement pushing the focus of COMMISSION that it was a fatal error as it continues to misrepresent that a Broker is an LO not a company. This begins the confusion of what an interest rate without calling it a discount points