

From: Forrest Cambell
Subject: Reg Z - Truth in Lending

Comments:

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Proposal: Regulation Z - Truth in Lending - Closed-end Mortgages
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Name: Forrest Cambell
Affiliation:
Category of Affiliation:
Address:
City:
State:
Country:
Zip:
PostalCode:

Comments:

I oppose the Federal Reserve's proposal to amend Regulation Z. I applaud and support the intention to protect consumers from predatory lending practices and abusive origination charges. The Federal Reserve's proposal will go too far and have harmful effects on consumers, industry and the real estate economy. Consumers of all products and services benefit from: · Education regarding the product or service. · Transparency in understanding the relationship between cost and value, determining if the price paid is reasonable. · The ability to compare similar products/services amongst many providers. · Greater competition allowing free markets to lower prices by having greater supply than demand. Eliminating yield spread premium, replacing it with a flat fee compensation paid by a lender will cause greater potential for consumers to be steered to specific lenders. RESPA makes steering to a lender a violation of federal law. The proposed changes to Reg Z cause for confusion and potential for greater litigation and increased expense to lenders and ultimately consumers. Yield Spread Premium allows a great opportunity for consumers to opt for a slightly higher interest rate in exchange for paying lower points, no points and in some cases no points and no closing costs. The investor/lender receives a note at a higher rate and pays upfront accordingly to secure the longer term payout. The borrower benefits from lower closing costs and can end up with a better situation in many cases. What is needed to protect consumers is greater education and understanding of the loan process. HUD's recent change to RESPA and the new GFE seeks to establish this by encouraging consumers to shop for a loan, understand what to compare and understand what the total compensation (origination and yield spread premium) the originator is receiving and then shows the YSP as a credit to the borrower. This is a good step in showing to a borrower what compensation is being earned by a Broker. It is very unfortunate and a disservice to consumers that banks and mortgage bankers are exempt from disclosing this income. Banks and Mortgage Bankers do not receive a direct premium for the increased yield but typically receive a service release premium and other compensation premiums based on the sale of the loan. As that compensation is exempt from RESPA, it is not required to be disclosed. Consumers would be empowered by seeing all compensation all lending channels

receive. Banks and Mortgage Bankers could report what they earn on average per loan to show the consumer that additional compensation could be earned by the lender. Consumers would have a better ability to naturally police lenders based on what seemed excessive and what seemed to be reasonable. By having unlevel playing fields, consumers are harmed. The proposed Flat Fee would become an unreasonable burden on the mortgage industry which will result in less loan production. This burden will be seen in increased administrative burdens, increased expense for legal review and counsel and potential conflict with existing federal law. The proposed hourly rate will punish borrowers who mistakenly choose slow originators. Additionally, the hourly rate option appears to be in direct opposition to the new GFE implemented by HUD. Consumers with smaller loans will be penalized when seeking a Flat Fee option to compensate the Originator, especially if the consumers is seeking for no closing costs. While I understand the current system is not perfect and has allowed predatory and abusive actions, the burden of the proposal is too great for the protection it seeks.. Ultimately competition will be reduced as originators find the burden of operating within the proposal to be too difficult and reduce or close lending channels.