East Coast
Mortgage Group

April 7, 2008

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Proposed amendment to Regulation Z, Docket No. R-1305

Dear Ms. Johnson:

I am a Mortgage Broker operating in North Carolina. I have read through most of the documentation on the proposed changes. I applaud the government's concern and efforts with regard to Mortgage Industry reform. As with any industry, there are participants whose focus is on taking advantage of gray areas or loopholes in the system to make a quick dollar, with no regard to the consumers well being.

One thing we can not lose sight of is the degree of "loose" lending practices that were introduced, approved and allowed to become part of the industry's norm. Yes, there have been plenty of unethical practices over the past 5-7 years. But, with the introduction of so many creative programs by the banking industry that required nothing more than a Social Security Number to qualify for a mortgage, in many instances, it was just a matter of a Loan Officer taking advantage of an available program to help a home buyer fulfill their dream. I can still remember so vividly Alan Greenspan's comments the day he announced he was stepping down; "The one thing that concerns me more than anything is the ease of credit in the mortgage industry". As we look back to what has transpired, how compelling a statement was that? It is my belief that in an effort to gain market share and competitive advantage during the refinance boom of 2002-2003, banks acted irresponsibly in their introduction of such lax mortgage programs.

I can tell you that, as of this moment, the changes that have already taken place in our industry, with regard to LTV changes, credit score adjustments, elimination of many No Doc programs, etc., are already having a positive effect. I no longer get calls from people that have no business looking to buy a house. I no longer get calls from investors looking to buy rental properties with no money down. Now, the only people calling are those that have put themselves in position to buy a home by maintaining solid credit and saving enough money for an adequate down payment.

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With credit requirements tightened dramatically and most of the questionable programs eliminated, the main concern now is implementing the necessary reform so as to eliminate unethical practices by our industry participants and help clarify and simplify the shopping process for the consumer. There is way too much creativity allowed in terms of how we present the meaningful data to consumers and there is no accountability for errors, omissions or deception. I believe there are simple, common sense changes that can be made to level the playing field, eliminate consumer confusion, as well as the potential for deception. In summary, here is what I would recommend and I will elaborate on each later;

- Good Faith Estimate – Develop a standardized GFE to be used by the entire industry
- Fees – Develop a list of standardized fees to be used by the entire industry
- Up Front Fees – Eliminate all up front fees, with the exception of the credit report
- Rate/Program Changes – A signed GFE must be obtained prior to closing if the rate and/or program changes.
- Disclosure of YSP – Not an issue! I will explain in length!
- Paying Points – I agree with the multiple options GFE to clearly illustrate to the consumer the differences of rate quotes with and without points.
- Builder Incentives – Eliminate Builder incentives that are tied to the use of their lending arm or preferred lender. This is an out of control practice that is in violation of most states lending laws, but for some reason neglected.

Good Faith Estimate & Fees
The Good Faith Estimate should be the common tool for which all Loan Officers provide their rate quote and closing cost estimates to the consumer. The problem today is that there are a multitude of GFE versions in use. Couple this with a long list of confusing fees that vary from lender to lender and it's easy to see why the consumer base is so frustrated. More importantly, any time there is confusion; deception is right around the corner. Eliminate confusion and you go a long way in eliminating deception. Here are my suggestions;

- Develop a uniform GFE to be used by all industry participants. This would be an easy change for the third party providers who develop the software in our industry. Banks or other lenders that use propriety loan origination systems would be required to make the necessary modifications, no exceptions.
- Provide a Points versus no Points comparison to give the consumers all options. Most bank loan officers include points in their quotes because that's their primary from of compensation. Most Broker based loan officers can choose between Points and YSP as to how they are compensated. Requiring both scenarios to be provided to the consumer on a uniform GFE will eliminate confusion.
- Develop a uniform list of acceptable fees to be used by all industry participants. This is a huge area of confusion and potential deception. Consumers get overwhelmed by the endless array of fees that are not consistent from one lender to the next. For example, most Brokers are charged a fee from the bank they sell the loan to. This fee, based on the lender, can be referred to as a Commitment Fee, Funding Fee, Underwriting Fee, Administrative Fee and so on. Loan related fees can include underwriting, processing, doc prep, credit report, flood certification, admin. fee, application fee, etc. Either develop a reduced uniform list of acceptable fees to be used by all industry participants, or eliminate the use of ALL fees and limit only an Application Fee. Limiting all

- lenders/brokers to just an Application Fee will clean up the GFE, providing less confusion to the consumer. Some may argue that this will allow lenders/brokers to charge unjustifiable fees. I think we would find this not to be the case. The market will dictate what a lender/broker can charge for an Application Fee. If a consumer can actually pair up several identical looking GFE's, with only one loan related listed, they will be able to make the right decision.

Up Front Fees
There are, indeed, some costs incurred in pre-qualifying a potential customer. We choose to not charge any fees for pulling a credit report or for making an initial application. I do believe brokers/lenders should be able to have the option of recouping these expenses. However, when a consumer is pressured into paying "Application" fees, or any fee above and beyond the cost of a credit report, they now feel obligated to staying with that lending source, whether or not it's in their best interest. If the goal is to encourage consumers to shop for the best deal, we should eliminate all up front fees, other than the actual cost of the credit report.

Rate/Program Changes
I understand there have been several of cases where unsuspecting consumers were forced to deal with rate and/or program changes at the closing table that were made without their consent or knowledge. This is unacceptable. In some cases, there is a need to alter either the rate or program as a loan progresses through underwriting. A borrower's income may be less than reported, a lien may be discovered, etc. In these rare cases, a loan officer should be required to obtain a new signed GFE reflecting the changes. If this doesn't occur, the loan officer's institution should be held liable for the original terms.

Builder Incentives
For some reason, this practice has managed to fly under the radar for several years now. Almost every national and regional builder has their own lending organization. At the time of contract signing, the home buyer is pressured into using the builder's lender, with offers ranging anywhere from a $2,000 credit toward closing costs to a several thousand dollar discount on the price of the home. Unfortunately, for the consumer, what seems to be a great deal on the surface is negated by inflated fees and closing costs. As a Broker, I can't even buy a real estate agent a cup of coffee because it could be construed as trying to buy business. Yet, a builder can offer different sales prices and different closing cost discounts to those that agree to use their lender. This practice needs to be discontinued immediately! If builders are going to participate in the lending business, they should be held to the same tight practices that we are and should be prohibited from offering home price discounts and/or closing cost incentives to obtain business.

Disclosure of YSP
I don't quite understand all the attention this subject is getting and what affect this has on the consumer. At the end of the day, aren't we trying to give the consumer the best tools and information available to make an informed decision from the many bidders for their business? And, aren't we trying to eliminate deception and unethical practices? If I can offer a consumer the best rate, best program and quickest turnaround times, does or should a consumer really care if I make $3,000 on the loan while my competitors would be making $2,000? First of all, there are too many differences in terms of disclosure law and in compensation programs for this to be implemented fairly. Banks aren't required to disclose YSP on the Settlement Statement. Bank lobbyists will argue that it would be too complicated to provide their YSP since they are the one selling the loan in the secondary market. Bank loan officers typically deal with "par" rates from their employers and charge fees to earn additional income. Brokers that set up warehouse lines can be classified as a "Lender" and avoid disclosing YSP. Therefore, only traditional Brokers will be required to disclose their potential proceeds. YSP does not reflect what the loan officer is earning from the loan. Most Broker loan officers work on a commission basis and receive a

certain percentage of the YSP as their compensation. The remaining amount goes to the Broker to cover overhead costs, including office space, payroll, utilities, supplies, licenses, bonds, marketing, advertising, etc. Nowhere else in our free market economy de we require a provider of a product or service to disclose their income or profit. Why? Because, in a free market economy, we allow the market to dictate the price. As long as we protect the consumer by forcing all lender types to honor their written commitments at closing, what significance does the amount of money a Broker earned have on the transaction? After all, there will be a realtor at the closing table who more than likely earned 3 times the amount of the Broker involved and nobody questions that.

The main point here is that in an environment where the playing field is level, where we all use the same solicitation tool (uniform GFE), disclose our fees from an identical list of fees and are accountable for our quotes at the closing table, the market will dictate how much we can earn. Yield Spread Premium is directly related to the rate we quote. Therefore, the market will not allow a Broker to earn more than their competitors because their rates and fees will be higher than the other choices they have. I know this is simple economics, but it really does work in the right environment. If the competitive field is forced to operate under the same rules, using the same tools and disclosing the same information, the consumer will be able to make the right choice every time.

If my letter has actually been read, I sincerely thank you for your time. Please don't lose sight of the fact that the majority of Mortgage Brokers are upstanding, ethical and hard working people, who have labored for years to build a solid business while providing excellent advice and service to millions of home owners. Please don't put the good folks out of business to get rid of the bad ones. As I stated before, a lot of what we are dealing with today are self inflicted wounds as a result of "over-relaxed" lending programs and confusing disclosure practices. Killing off, or significantly wounding a valuable member of the lending industry is not needed to fix the problems. Part of the problem has already been addressed with the discontinuance of questionable programs and the implementation of tighter guidelines. All we need to focus on now is uniformity of disclosure and one set of rules for everyone to follow. Not all serious problems require a complicated solution.

Sincerely Yours,

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