From: Eagle Nationwide Mortgage Company

Subject: Reg Z - Truth in Lending

Comments:

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Proposal: Regulation Z - Truth in Lending - Closed-end Mortgages
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Dec 4, 2009 To: Federal Reserve Board Re: R-1366 Proposed changes to Regulation Z- Truth in Lending- Closed End Mortgages First let me say I have read the proposal in depth and appreciate the time and effort being spent here. The housing market has suffered dramatically, irreversibly in many ways from the crises we have experienced over the past few years. Ultimately we are all the losers here, whereas all of us who own and finance homes have seen our dreams of home ownership in many ways taken away from us. That being said, many of the things that need to be done to fix, and to make sure that does not happen again do not lie within this proposal. Many of the very things that are intended to simplify and improve the mortgage loan process will most likely end up over-complicating it, and the consumers that these proposals are designed to protect will most likely not see any protections whatsoever. I say this as a 15 year mortgage industry veteran. But I also say this as a consumer.
I have worked in the mortgage industry, primarily retail mortgage lending as an originator, and as a manager. I am currently employed as a branch manager of a mortgage brokerage and direct lender. I have never enjoyed being in the mortgage industry more than I do now and started feeling this way about a year ago. As a retail mortgage loan officer for a large bank I regularly sold loans to clients that could've received better loan terms from the mortgage brokers that were my competition. I regularly lost loans to those brokers if my costs or rate was too high which in many cases it was. I became a mortgage broker in 2006. I wanted to be able to offer my clients the best loans I possibly could, and obviously earn a living as well. There were many more lenders out there at the time than there are today, and when I saw some of the loan programs that were out there I could not imagine why some of them made sense to anyone-banks, consumers, investors, whomever. We have to take a step
back and ask ourselves how this financial crisis happened. It happened for a variety of factors. First and foremost: the creation of financial and mortgage

products that maybe (absolutely) did not make sense. Should you write a loan to someone who cannot document their income? How about giving someone a loan on a home that has no down payment? How about a loan where the payment is less than the actual interest on the note? There are many more examples as you know. We all already know that in hindsight these where not good ideas. The good idea of trying to expand homeownership over time became a bad one as more ownership was actually taken away from many because of those who did not deserve it to begin with. Not everyone can be a homeowner. We all just need to understand and accept this as a fact. As I said above I have never enjoyed being in the mortgage industry more than I did about a year ago. Why? It is because everyone was beginning to act responsibly. Lenders and consumers included. Many people had become used to using their homes as piggy banks, but not anymore. As originators, we were helping families again, keeping them in their homes. So when did this all start? About a year and a half ago lenders actually starting reading appraisal reports before they signed off on them. I thought to myself-this is how it should be, how lending used to be. If the value of the property didn't make sense or was in question, the loan wasn't approved. Proof of income was required on every loan. What many in the industry seemingly may have thought was frustrating, I thought was very refreshing. I knew that if we could get back to responsible lending the housing market had a chance to heal itself. Now things are getting derailed again with overzealous legislation and proposed regulation. The Home Valuation Code of Conduct was drawn up and hastily put into law. This was put into law for the very same reason as this proposal-to protect consumers. Unfortunately, it has done nothing closer to the opposite. Appraisals used to be done by knowledgeable, local appraisers. Not anymore. Now they are done by inexperienced appraisers who work for much larger, appraisal management firms. Many of these small, local appraisers have lost jobs. The cost of these reports has doubled. Bank underwriters are now back to not reading these reports again as it's the responsibility of the appraisal management companies to ensure the quality of the data therein as they carry the insurance to cover any losses. I will give you a few examples: I just had a client who had to pay 750 dollars for a report on 3 family home. I just received another report this week on a condo which was 545 dollars. I actually took advantage of the lower rates myself (thank you) and refinanced my own property about a month ago. I had an appraisal done on my home for 440 dollars. Then I had the opportunity to lock in a lower rate with another lender. One problem---I had to have my house reapraised for another 405 dollars because the original report could not be used with the new lender. Total cost of 845 dollars. I used to be able to shop these services for my clients and get appraisals for as little as 250 dollars. I wish someone could tell me how this has helped any consumer. Getting to the Regulation Z proposal, I most recently went through some training with AllRegs, a compliance training company. One conference call lasted 2 hours and I was more confused on many of the changes when I got off the phone. Getting a mortgage is just not this complicated, or at least does not have to be. I thought to myself, if as an originator I am this confused-how confused are my clients going to be? The unintended consequences here are so similar to that as the HVCC law. Broker Compensation, YSP, the evil of all evils (to so many of those that are uneducated on the mortgage process) is a big part of what brought down the financial system right? This just means that a borrower pays a higher rate than they should get right? These are just "kickbacks" right? It needs to be stopped. What a good campaign slogan. About a year or so ago most lenders started requiring that borrowers are disclosed YSP broker compensation not only on the GFE and HUD, but also on separate broker fee agreement forms, separate state specific forms, etc. When they sign a disclosure package they see these costs in numerous areas, disclosed on numerous documents and creates confusion. Unfortunately, this just does not help them to shop for a better loan. That is not the transparency that makes things better for the consumer. In fact, it makes them lean towards taking a higher priced loan from a direct lender. Because they don't see the compensation disclosed they feel as though they are not paying it. The fear of being swindled makes them feel this way. It does not matter what any research or testing says otherwise, I've seen this as both a retail banker, and as a broker, and it is a fact. As far as lenders paying compensation based on the interest rate, this is actually the best way to assure that the consumer gets the best loan. If secondary markets operated differently this may not be the case but that's how it is now, and they only way I can foresee the market working properly. By paying originators a flat fee on a loan they will not be able to incorporate the costs of the loan into the rate. Especially on a refinance, this is the most logical choice for most consumers. Competition among lenders will be stagnated as will the innovation that monetary reward creates. It is the compensation that is paid on loans that creates the market for the loans. We are already in marketplace right now that is dominated by just a few lenders. They will basically be the only lenders if this is passed, which again, will just hurt the consumer. Mortgage brokers provide a valuable service if allowed to do so and held accountable. We already live in a society where many of our customer service calls are routed overseas. Do we want consumers handling their mortgages this way? If you really look at it the best way to make sure that consumers get the best terms is just to make sure that the best mortgage products are made available to them. Part of that is done by making sure there is a market for it. This part of the proposal will in many ways render the mortgage broker useless, shrinking consumer choice, and taking that market away. Do we not want consumers to have the option of shopping their loan in the wholesale market? Already there is less completion in the wholesale markets due to many of the changes that have taken place. I wish there was a way to make sure everyone received the perfect loan, each and every time. There isn't. But the best way to make sure this rarely happens is to make sure that the best, most ethical, educated originators are in the mortgage business. This will be accomplished by increasing the standards and education requirements for originators, and holding them accountable for the loans they write, not limiting the compensation that is earned by them. We will just have to trust the right originators will make good decisions along with consumers the service. This can happen, and already is happening, and we need to give it time. That is why I enjoy what I do so much right now. Parts of this proposal will do the opposite and push good originators out of the business, just like the HVCC has done to so many appraisers Unfortunately some consumers will make bad choices here. Some loans will not be paid on time. The proper, simplified disclosure and education of borrowers is the most important for them. By giving customers clear information and the ability to compare loans based on the terms, irrelevant of the compensation paid for the loan. I hope that these comments prove thoughtful and are inoffensive to anyone that believes that the proposed changes in their current form are what are best for mortgage consumers.

Athough I am in the mortgage industry, I have financed my own homes, and interacted with hundreds of consumers over the years, and can really see the potential harmful impact to them, more so really, than any originator.