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Subject: Regulation Z

Hello Mr. Chairman & distinguished board of governors,

In August of 2007, I wrote to you and to Mr. Frank's committee that it was necessary to get liquidity into the markets, nothing was done at that time – action was taken, but way too late to effect any calming effects in the market, which still today is in seizure. Later in October 2007, I wrote again to Mr. Frank to propose that the Federal Reserve bail out the bad mortgages that were caused by the irrationality of sub 3% interest rates for such a long period of time by Mr. Greenspan causing the housing bubble, I am happy to see that some steps have been taken to move down this path.

Since Chairman Bernake is a scholar of the Depression of 1929, he will remember FDR's Federal Home Bank Act of 1932 and the creation of the Home Owners Loan Corporation. In this, the government did not bail out the old mortgages, but did instead move to take pressure off the homeowner, by underwriting and insuring new mortgages issued at low rates appropriate to such Federally insured paper. This took pressure off the banks and halted the foreclosures. Why aren't we doing this??

Positive from this debacle is that Reg Z is finally being redone – I along with other mortgage brokers support this direly needed freshening of Reg-Z. But, it appears that it is being redone with several goals that make no sense whatsoever:

- Why would the Federal Reserve require mortgage broker's to disclose all fees up front prior to submission of an application and not a Bank? The only result in this change will be that consumers will pay more because mortgage brokers will no longer be able to compete with direct lenders. This is a huge disadvantage for the consumer.
- Why would the Federal Reserve create a regulation to benefit banking originators?
- Why would the Federal Reserve outlaw No Document, No Ratio and Stated income loan types? This change will result in borrowers that are self employed to no longer be able to purchase homes.

My commentary would be as follows:

- No Document, No Ratio and Stated Income loan types allow individuals that own their own businesses, work for tips, etc to purchase homes. Without this, these individuals will no longer qualify for loans. The Federal Reserve needs to understand the underwriting standards at banks for self employed looks at net profit which is significantly different than w-2 income. If you compare 2 borrowers with the same scores and working in the same field, but 1 is paid as 1099, the other as w-2 income. If they both earn \$120,000 per year and have IRS deductible expenses of \$50,000, the bank will underwrite the w-2 borrower with \$120,000 of income to qualify for a loan, while they will consider the 1099 income individual to have only earned \$70,000 – how is this fair to small business owners?? This will create a major problem in the market and destroy small businesses in the United States.
- Please require all mortgage originators (lenders, brokers, banks, private lenders (hard equity folks mainly), reverse mortgage lenders) to disclose all costs with the same disclosure requirements. Florida has had one of the highest incidences of bait-and-switch, and has been the greatest of abusers of the current regulation. But, this is more true of actual lenders/banks and private lenders here than even mortgage brokers. How can you justify creating an unequal playing field, why not put in a new regulation and enforce it equally everywhere?
- Consumers are looking for the best deal, they don't know nor care if they are dealing with a bank, lender or mortgage broker. Their interest as yours should be is to ensure that information is correctly and adequately disclosed.
- Lenders make yield spread as well in their mortgage transactions – why not require equal

disclosure to allow the consumer to see what they are being charged? I competed many times with lenders quoting rates significantly higher than what I was able to provide – i.e. they were getting paid spread without disclosing. In my company, we can act as a broker or lender. It was always favorable to close as a lender because you never had the discussion with the client on how much money you actually were making – this is a bad loophole that this Reg Z revision is allowing to continue – again, even the playing field and make everyone disclose everything upfront.

Some other items that I would comment on as well:

- Mortgage Loan Originator Federal Licensing:
 - o Do away with all state licensing – one Federal Program only. Everyone including private lenders over \$50,000 should have to be licensed federally and all loan originators (anyone that directly touches a client) should be federally licensed. Since banks have a choice to be Federally Chartered or State Chartered, why not have a national licensing for all loan originators. This should be for mortgage brokers, lenders, banks, etc and for anyone that touches the client directly in the process of obtaining a mortgage. Part of the problem in the real estate / mortgage crisis that we are currently in is that you have different licensing in Florida than in California, than Georgia, etc. Why not establish a Federal Requirement and do away with the state licensing. It is a total joke anyway in most places. Here in Florida a person is required to take a 2.5 day class, sit a test and pass with 75% or better score. That's it. What a joke. To become a realtor in Florida, a person is required to take over 60 hours of education, pass the license exam, then sit another 64 hours of post licensure education in their first two years. I think you would agree that mortgage loan origination is somewhat more complicated than selling a piece of real estate. The knowledge should be that of what is required for Series 6/7 securities. I would not want someone that has a nice smile and car salesman bedside manner originating my loan – but, without a federal mandated licensing program this is exactly what you have.
- Simplified HUD:
 - o How about simplifying the HUD? For most folks, including mortgage originators, the form is way too complex for understanding the costs of borrowing money. Section 800 of the HUD is very difficult to understand. There should be a standard for how this is presented. It also should be a requirement that it be compared to the original disclosure at closing so the borrower can see what the changes are that have been done. This will eliminate about 98% of the bait-and-switch cases.
- Title Company Federal Licensing:
 - o A mortgage closer should be required to obtain a federal license. This would standardize the presentation and requirements at closing on presentation of the loan facts. With this, there should be a standard mortgage closing disclosure checklist that should be completed for each closing. This should include the following information:
 - Review and comparison of originally disclosed/submitted fees from the mortgage originator (broker, bank, lender, etc) and what is provided on the final HUD
 - Review and comparison of originally disclosed loan product
 - Review and comparison of other terms of the loan such as prepayment penalty, capability to prepay, modification of mortgage insurance, etc
- Simplification of TIL
 - o If you survey people who have obtained a mortgage, 99.99% will tell you that they do not understand the APR calculation on the TIL. Most get confused and think it is a change in interest rate. More don't even look at it.
 - o Put in an extra requirement on the TIL – the interest rate of the loan, along with any and all changes. Have that next to the APR. Then require that the Title company show this in their standard closing disclosure as discussed with the consumer. This again will point out clearly to the consumer the actual cost of the loan that they are obtaining.
- Standardization of mortgage and note instruments for all loans

- Consumers are constantly confused when they are at a closing, every lender has a different format. Simplify it, have 1 standard form that every lender must use for each mortgage type: 1st mortgage, 2nd mortgage, Heloc, reverse mortgage, etc.
- FHA has become the new subprime.
 - Everyone is qualifying folks under FHA. This is truly amazing even with a manual underwrite. I don't know about the rest of the country, but I just don't see how borrowers that could not qualify under conventional and needed other products such as interest only arms, negative amortization, etc can now amazingly qualify for strict FHA 27/41% guidelines. I think regulation needs to be stepped up on this segment to really check w-2s, 1099s and tax returns with the IRS prior to allowing loans to close.

Other commentary on liquidity and the real problem – stabilize the real estate market:

- The Federal Reserve needs to solve the real estate problem – stabilize the market. This is what FDR did in 1933, stop the foreclosures and the massive price drops which is eroding equity of other home-owners. We really, really need this immediately before we go into a depression.
 - How about a Federal Reserve backed bailout of all mortgages that are in trouble, as well as the ones that will be upcoming from the upcoming negative amortization debacle that we will see – probably a lot in California.
 - Buy all of these loans, re-price/underwrite them without qualification to 5% 30 year fixed mortgages.
 - This will stabilize the real estate market and stop the massive price reductions to dump properties.
- We are in a liquidity trap right now, stop lowering interest rates, stop printing money.
 - You have printed nearly \$1Trillion – look at the hyperinflation this is already causing, food prices have doubled in most areas for staples. Stop printing already. How about creating liquidity by buying the bad debt as proposed in the earlier point which will then encourage Wall Street investors to start buying securitization instruments again.
 - The more you lower interest rates, the higher that home loan rates are going – the risk yields are now 3% for a lender, this is ridiculous – how about a regulation that would limit this to say 1%? Or, fix the problem above to make the market work again.
- Fannie Mae & Freddie Mac
 - Both of these organizations are now penalizing all but the best borrowers, i.e. those with higher than 720 credit scores.
 - Why? All this does is line pockets of the investor, it is not creating liquidity, it is actually a term we use here in Florida for those that try to make a quick buck after a hurricane – it is called profiteering and is against the law – the Federal Reserve should also regulate this.

My name is John Gerun. I am mortgage broker in Ft Lauderdale, Florida. I have a couple of degrees, including a Masters in International Business and Economics. If you wish to contact me, please email me at jgerun@apexlending.com.