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Subject: Regulation Z

The following comments on the Board of Governors of the Federal Reserve System's recently proposed amendments to Regulation Z, the Truth in Lending and Home Ownership and Equity Protection Act are hereby provided on behalf of the thousands of members and/or member firm employees of the Oregon Association of Mortgage Professionals (OAMP).

Though the officers, directors and members of the OAMP appreciate and support the efforts of the Fed to protect the interest of consumers, there is one area of the Fed rules' provisions with which we respectfully but significantly disagree: the disparate treatment of mortgage brokers in the area of compensation disclosure and yield spread premiums. The net effect of these changes may be harmful increases in consumers' costs, due to both confusion from new disclosures and diminished competition.

Oregon is not one of our country's largest or most populous states, but we are a state that still offers more affordability and demonstrates lower percentages of mortgage delinquency and foreclosures than most other states. This is largely due to Oregon's 1,706 licensed mortgage brokers in 2,945 locations, employing 8,494 registered loan originators, who provide the overwhelming majority of home loans in our state. These brokers are generally small business people, in local communities, with lower overhead and lower costs to consumers. That's why most Oregonians choose them, when they need home loans.

Oregonians, and particularly first time home buyers, are generally more challenged by the need to come up with funds to close (down payments, closing costs and prepaid expenses), than they are by small differences in their monthly payments. This has become even more true in recent weeks, as 100% financing (even special first-time buyer programs such as Fannie Mae's "My Community" and Freddie Mac's "Home Possible") have ceased to be offered, since tightened guidelines by every mortgage insurance company have eliminated their availability, and use. So, conventional, prime home buyers now need a minimum of 3% of the home purchase price for down payments from their own funds (not gifts).

These buyers are <u>best</u> served (NOT ill-served) through use of the yield spread premium (YSP), in lieu of up-front loan origination or mortgage broker fees. Typically, an increase of .25% in rate (resulting in a P&I payment increase of $32.14/month on a $200,000 loan) would allow a "par" loan in that amount to yield a 1.0% YSP as the broker's compensation ($2,000). That would not only allow more first time buyers to achieve home ownership, but makes more pure economic sense to most of those buyers. Even if 3% down payment funds ($6,000 on that $200,000 purchase) had been saved by the potential home buyer, if that buyer chose to pay an additional $2,000 in up-front mortgage broker fees rather than accept the .25% higher rate, it would take over 62 months – over 3 years– to recover that expense, through the $32.14/month savings. Statistically, most first time borrowers (and others including relocating corporate buyers) are not generally in their homes, let alone their mortgages, for that length of time.

Paying the “points” rather than the slightly higher monthly payment does not make sense.

Repeated studies done not only by NAMB but also by the FTC show that consumers often choose bank loans that are <u>more</u> expensive than broker loans (with a higher interest rate for the same amount in fees actually paid by the consumer), when asked to compare estimates with broker disclosures of all sources of income. Bank disclosures unfairly hide anticipated income, though it is similar, if not greater than that received by brokers. Confused consumers often make wrong choices when exposed to two or more different levels of disclosures for brokers verwsus bankers.

The Good Faith Estimate and HUD-1 Settlement Statement already show mortgage broker compensation from all sources (though both current rules and these proposed rules do not require the same for other lenders). Expanding this already cumbersome level of higher disclosure by brokers and not by all types of originating lenders would simply confuse consumers further. Fewer borrowers would choose to work with mortgage brokers, causing some firms to suffer significant loss in market share, and causing others to go out of business.

The net result of this disparate treatment, perhaps the net objective of some, would be to reduce if not eliminate the market share of mortgage brokers, in Oregon and throughout the US. This would be unfortunate, not only for the thousands who would lose their jobs in our profession, but also for the consumers who would lose the benefit of a competitive marketplace. If the only mortgage lenders left are the big banks who mistreat consumers nationwide with their credit card practices, will consumers be better served? We think not.

Why have mortgage brokers grown in market share, to the current level where we originate two out of every three home loans nationwide? We have reached that level because we are small business people, not giant institutions. We provide lower cost, more affordable financing to our neighbors and repeat clients. We achieve that goal through our use of tools such as the YSP, that allow us to offer “no points/no fee” loans to buyers and refinances strapped for up-front cash.

Please allow us to continue helping Oregonians and Americans experience affordable home ownership. Please consider amendments to your proposed rules that would make serving our valued clients easier, not more difficult and confusing.

Sincerely Yours,

Victoria Bigham, President
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Oregon Association of Mortgage Professionals