From: VBS Mortgage, LLC, Richard Elliot

Subject: Reg Z - Truth in Lending

Comments:

Ms. Jennifer J. Johnson,

Please, I know my e-mail is a little more in depth than most, but I wanted to fully address this issue with whomever thinks that Yield Spread Premium is just another way to take advantage of consumers, by citing true verifiable examples. Therefore, please, take the time to read this and share it with those entities that have this misconception

I am taking my "Strictly Commissioned Income" time to voice my objection to this Docket # above.

This rule, which I understand, will eliminate the Yield Spread Premium* associated with the "buying and selling" of mortgaged Promissory Notes in the United States. Now I am not sure of the origin of this Yield Spread Premium or how it is calculated, but I do know that it "Provides a Vehicle" for the consumer, "With Not So Stellar" credit/scores to secure the credit needed to purchase, in this case, a Home!

My personal examples of how the Yield Spread Premium(Money Paid By the Lender, by the way!) has "saved" a number of borrowers from not getting the loan to purchase, or refinance their existing mortgages, are threefold.

(1.) Terry and Alma Moran. Refinanced their Doublewide Manufactured Home in 09/08 and Consolidated their 1st and 2nd mortgage into one FHA** Insured Loan. I originally quoted them a rate of, I believe, of 6.75%. At this rate, I believe, the YSP was very minimal, almost at par rate, after having to "Cover All of the Adjustments" set forth on the lenders rate sheet. (I am assuming you know what "adjustments" To The YSP, BY THE LENDER, NOT us, the LOAN ORGINATOR, is/does when calculating the Interest Rate for an Individual Borrower) on this a Doublewide Manufactured Home. BUT, when the appraisal came in the value found by the appraiser did not allow this loan to close because, even at a 95% Loan to Value, allowed under the then FHA Refinance program, there was not enough value to cover their Closing Costs, which allowed for covering ALL OF THE CLOSING COSTS Including Payment of their "set up of a new Escrow Account", the appraisal, County and State Tax Stamps, etc etc. etc. I mean that they expected to come to closing with now funds! But, the appraisal said "this ain't going to work!".
So, what do you do under circumstances like this. Just tell them no! By the way, and I can't be 100% sure, seeing as how I don't have my original loan file(in storage!) but the Interest rate on their then 1st and 2nd Mortgage, combined, was some where in the neighborhood of 8-10%. I, as the Loan Originator, with full discretion even though working for VBS Mortgage, eliminated our "Compensation" for securing this, by the way, hard as heck Manufactured Loan for the Moran's (even if a Federally Insured Loan, lenders really don't want to do them, due to the possibility of Foreclosure!). The time spent on the "nit picking the loan to death" attitude by lenders really keeps you as a Loan Originator, from being able to "get out there" and find new business to keep you income "steady". Ok., I digress! What I did was, I purposed to the Moran's that we move their interest rate up to 7.125% (a .375% increase by the way) and let the Yield Spread Premium "Compensate VBS Mortgage

for my work as a Loan Originator. The monthly "increase in payment" from the originally quoted monthly payment at 6.75%, was $28.34!!. Even with this occurring, the Moran's monthly payment, on the two in place mortgages, went from $910.97/month down to $760.07, a $150.90/month savings. VBS Mortgage did, when the Final Settlement Statement was put into place, at closing, make $468.58!! So much for Example number one where the Borrower's Mr. and Mrs. Terry Allen Moran, of Roanoke, Va. benefited by The Lender Paying YSP Compensation to this Loan Originator, who took his, and the Loan Processor's Commissioned Time to work for the Moran's, who, in my opinion experienced a Win/Win Situation by selecting me and VBS Mortgage to find them a loan to "Consolidate their two mortgages, that was "killing them" on interest, on a Doublewide Manufactured Home!

2. Sharita Mayo and Javan Robinson. Purchased home in 11/09 thru FHA Program. Under this program they were required to have 3.50% of their own Funds as a Down Payment. They did have these funds, but as first time homebuyers(by the way seeking the $8000.00 incentive, I might add!) this was about all they had! Well, I got all there documents needed, together, and sent their loan package off to a lender we had chosen with a rate of 5.125% quoted. Keep in mind rates are always up and down, unless locked in! I have to add here that this particular lender, at the time of mortgage application submission, required a minimum middle credit score of 620, which both borrowers had! But, after the loan had been in this lenders office for one week, their rules changed and all borrowers had to have a 640 score. This was a week lost! Keep in mind, I and the processor, are commissioned so anytime we have to "start over" on a loan this is lost income and my ability as an L.O. to be out there "finding new business" to maintain and income flow to pay my mortgage, bills etc.! So, when we found a new lender, the credit report originally pulled for these borrowers had expired! So, a new combined tri-merge credit report had to be ordered. Low and behold, it is now found that Mr. Robinson has a Collection showing up on his report, thereby causing his score to drop even more. It was determined thru a computerized program with our supplier of credit reports, that if this Collection is paid and the bureau's records updated to reflect this his score could possibly get back to the 620 minimum required. So, I as the L.O. have to "nurse" him thru getting the collection paid and I had to spend more of my Commissioned time getting this Collection account "marked Paid at the three major bureaus and monitor the updates till corrected, which takes a minimum of 30 days. Once this was completed, after some two to three weeks passage of time, we pulled another report. WELL, he did not come up to the 620 minimum score needed, but was pretty close! So, it was determined, again thru this "Scenario/What If" program, that if he paid his only charge card balance down to a certain balance,, get the bureaus records updated, again, to reflect this pay down, that his score would be at, or above the 620 minimum score needed. The loan and short his he had to wait till "pay day" (nearly two weeks) till he had the money! Got the balance paid down, and then started the process of filing the disputes with the three bureaus to get the account balance to reflect the pay down. This took another two weeks. Remember this is me, the L.O., spending my Commissioned time to fix this borrowers records, due to "not being aware of what preparation means" prior to applying for credit.!!! report. Well we finally get the loan approved, but come to find out they don't have the "closing costs" money, over and above what the seller was "paying at closing", per the Contract of Sale, due to these two items just described, as well as the $250.00(+) in credit agency fees, new reports and the RUSH FEE for the "Scenario/What if" report taking their money anticipated for these closing costs!! Well, guess what has to happen? I have to give up the greater portion of the 1% origination and 2% Discount Fees, originally agreed to on the Good

Faith Estimate, and use it to "Cover their Closing Costs, Over and Above" that which the seller had agreed to pay!! The 3.00% we had agreed on was suddenly reduced down to 1.5533%, BY ME THE L.O., I might add, again, so this loan would "work" and these people would get their house, and, I might add, the seller would be "served also". So, in order to salvage some of this loss in income, I had to lock the interest rate at 5.50%.
Their payments increased from the anticipated, by $19.22/month!! Conclusion, if the Lender did not offer Yield Spread Premium, on ALL mortgage loans, situations like this would not happen.

These to examples are not the only ones ever in my nearly thirty eight years in this business, just the to most recent.

I have never done a No-Cost/No-Fee closing, but have heard of them being done. Consumers have called me and asked for me to give them a quote on one, but I try and explain to them how it would work (higher than normal interest rate) in order to cover our fees, as well as the anticipated closing costs, pre-paids, appraisal, first years homeowners insurance policy premium, tax stamps, title search, title policy, establish escrow account, etc. etc. and most of the time they go on to someone who will not explain what will be happening, therefore getting to someone point where it is explained and then they back out due to the high interest rate that I explained long ago. For those that choose to go forward with this scenario, if Yield Spread Premium is eliminated, these loan vehicles will of course be eliminated also!!

I hope I have not bored you with these two examples (I have others, by the way!) of how elimination of what the lenders want to pay in Yield Spread Premium, in this complicated world of calculating the risk involved in lending their money, helps the consumer. If this is eliminated, you can count on the fact that those folks with Unique Homes/Housing. i. e. Manufactured Homes, Log Homes, Dome Homes, Condo's, Town Houses, whereby the lenders charge "compensating adjustments for their risk (ultimate being Foreclosure) involved in lending on such places; mortgages with low loan amounts, consumers with below average credit scores; consumers wanting to use their equity to pay off debt a/k/a Cash Out, will not be able to, because the "compensation adjustments for their "qualifying circumstances" will be to expensive for them to "pay out of pocket". Hey, and I almost forgot! Lenders also impose adjustments (expressed, by the way in percentages that eventually converts to DOLLARS) for other things, i. e. refinance cash out (paying off charge cards, car loans, student loans, etc.) Any dollar amount, over and above "2%, of the loan amount, or $2000.00, whichever is greater constitutes Cash-Out and Loan to Value Ratios, when refinancing or purchasing. So, can't you see that Yield Spread Premium, helps borrowers in their purchases/refinancing, by having the choice of "moving their rate up a little" to compensate lender for those circumstances described in examples 1 and 2 above, as well as compensate lenders for their adjustments. Maybe what someone needs to do is really research the monetary origin of Yield Spread Premium, how this money is generated in the mortgage lending and selling of the mortgage process, which allows the borrowers the ability to "move the rate up" to compensate the lender for his risk, versus, paying the lender his compensation "up front, in cash, at closing" for their risk! This would help all parties involved.

Hey, it just dawned on me, in the course of spending practically all day, off and on, composing this e-mail, that YIELD SPREAD PREMIUM IS NOT FOR THE BENIFIT OF LOAN ORIGINATORS, BUT FOR THE BENIFIT OF THE LENDER AND BORROWER, DUE TO ALL

THESE "ADJUSTMENTS" FOR RISK LENDERS IMPOSE ON BORROWERS!!!!!!! LOAN ORGINATORS
ARE JUST INTERMEDIARIES BETWEEN THE LENDERS AND BORROWERS TRYING TO WORK OUT
THE BORROWERS "QUALIFYING PROBLEMS", AND GETTING THEM THE LOWEST RATE/LOWEST
CLOSING COSTS RATIO/BALANCE POSSIBLE. The role of the Loan Originator then becomes the lenders "out sourced" means of getting loans submitted to them, rather than another said lender. Hence, Competition between lenders for L. O."s business of sending a customer to "this Lender" versus "this lender". In other words, I, as an L. O., am charged/expected, by my client/borrower, to Find the Best Rate, with the Least Adjustments for their "qualifying circumstances", with the lowest actual closing costs and get the loan closed as fast as possible, for which I am then compensated! Usually by the 1% Origination Fee and or the 2% Discount Fee/Mortgage Broker Fee, allowed by Fannie Mae, Freddie Mac, FHA and The VA unless I have to "give up" some of these funds in order to make a "loan work".

Yield Spread Premium is not simply a means of compensating Loan Originators; it also serves the consumers (borrowers) interests by allowing a greater flexibility in structuring loans, and enhancing consumer choice!

** Please Note: The FHA Regulation allows Loan Originators/Brokers to charge, for their services, a maximum of 1% Origination and 2% Discount Points on any loan insured by them(FHA). This is also true of VA Insured Loans, as well as Conforming Loans, except on the latter, the 2% is shown on the Good Faith Estimate as a Mortgage Broker Fee.

* Suspect it is calculated on the Total Value of the Amortized Note over the Expected Life of the loan!!

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