From: "Christopher Rich" <chrisrich.loan@gmail.com> on 04/08/2008 10:10:02 PM

Subject: Regulation Z

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I wanted to take a moment of your time to give my opinion and perspective on the proposed rules and measures being discussed and possible legislation changes by our governing bodies. With nearly nearly ten years in the banking industry and having worked on both the broker and lender side of the transaction my input based on first hand experiences should be held in high regard.

While I am in full support of the efforts the Federal Reserve Board is taking to safeguard the consumer with proposed amendments to Regulation Z, I cannot agree with any measures that are ill considered and short sighted. While I'm sure well intended the proposal to restrict compensation for mortgage brokers may initially have the desired outcome however in a short period of time the ramifications of such a change would be felt most by the ones it was intended to protect. By restricting compensation for mortgage brokers it would give an unfair advantage to lenders. The consequences of such an unfair playing field would be considerable. Mortgage brokers would be forced out of the banking industry in large numbers leaving mostly lenders to originate most or all of the loans. While this may be Board's intentions this change would clearly make a far less competitive environment with the consumer paying the price literally. Considering cutting out the middle man can work well in most situations in this case it would allow lenders to charge rates and make terms that the consumer wouldn't be able to distinguish from others. The broker being the intermediary in these transactions means they can serve both the consumer and the lender. Consider that most consumers are not financially savvy or knowledgeable on what transpires during a typical mortgage transaction a Mortgage Broker's industry inside perspective can be an invaluable commodity for the typical consumer while the lender still gains the consumers business in a mutually satisfying transaction. Both Mortgage Brokers and Lenders target the same consumers. We are in direct competition with each other. This competition keeps consumers interest rates lower than they would be in a Lender only environment. Many times the consumer contacts me after contacting their servicing Lender for a refinance only to find that I'm offering them considerably better terms. It's these instances alone that make the need for an equal playing field most important.

Some time ago the differences between Lenders and Mortgage Brokers were quite obvious. The Lenders were in the business to originate whenever possible but mostly concerned with attaining and servicing quality paper. The Mortgage Broker not having to worry about the quality of the consumer simply tried to find a lender whose standards were lenient enough to make a loan. While the broker certainly followed the rules & guidelines they obviously were not worried how the consumer performed further down the line. This distinction certainly made Lenders more cautious and stringent with the loans they originated. Worrying about the long term performance of a loan will keep standards high. Because of these standards the brokers job of placing challenged consumers was quite difficult and often the outcome was an unsuccessful one.

However because of the competitive nature of the industry and the hard work of the broker there were some successes for consumers that would otherwise have missed out on the privilege of home ownership.

In recent years the differences between Lenders and Brokers have diminished if not disappeared. The lender no longer worries about the long term health of loans they attain of originate because they can simply package and resell their loans to investors or institutions. This change in how business is conducted has had a profound effect on the industry as we can see the results before us. While the liquidity has allowed necessary benefits to be realized by the consumer that wouldn't have otherwise been there it has also allowed lenders do business in a fashion similar to how Brokers previously conducted business. There are no longer the checks and balances needed in this industry. Both the Lender and Broker seek out the same consumers and simply originate any loan they possibly can with no one making sure the ability to repay is there. The consequences of these actions are not felt by either of them and ultimately aren't realized until later when the loan goes bad with the investor or institution holding the bag. Considering Lenders and Brokers are conducting business in nearly identical fashions there simply cannot be any differences in the required disclosures or how compensations are disclosed. Brokers essentially sell their loans to Lenders who in turn sell their loans to institutions or investors. Only the best of the best paper is actually kept and serviced by most lenders and even still it is usually packaged and sold not to far into the distant future. Many lenders in fact sell every loan they attain or originate. Again this shows how the brokers and lenders are nearly the same in today's market and there should not be any anti competitive measures in place like requiring brokers to disclose compensation prior to application. By doing this other originators like lenders could easily guide borrowers away from brokers despite the brokers terms actually be more positive. The lenders could easily point out yield spread compensation among other fees and claim that the borrower would not be paying such fees when conducting business with them. In reality they would be paying those fees but there is no way for them to know this since lenders would not need to disclose such fees.

The loan process can be a difficult and long process. Often times the consumer or borrower does not fully disclose their financial position fully until the broker poses questions to them based on their required documentation. Further complicating early disclosure is the fact that loan amounts often change throughout the process. Since most applications are performed over the phone or internet prior to receiving such documents it would be impossible for a broker to accurately disclose compensation this early in the transaction. In fact most times the broker will give the consumer an idea of the costs associated with the transaction during the initial contact but also stating that if the information provided is not accurate or changes it will impact the figures quoted. Requiring the broker to stick to these early figures regardless of the consumers situation would be an impossible task. The broker would be forced to over quote the loan just to insure they would not lose money on the transaction. This practice would surely lead to more non competitive business considering lenders and other originators would not be forced to disclose such fees this early in the process which would easily allow the consumer to choose others based on these figures while in the end the broker may have been offer a far superior deal.

I have taken time to compose this letter because I feel it is extremely important that the Board of Governors of the Federal Reserve know the unintended consequences of their proposed rules.

Often times good intentions fail to help the ones intended due to a lack of perspective. I hope my letter, which could have been considerably longer and much better written if not for the fact I must use my resources to conduct business, has brought to light just a few of the many penalties these rule changes will have on consumers as well as brokers. Thank you for taking into account my comments while considering these proposed rule changes.