

## May President's Message

### YSP vs. SRP

There is a great deal of debate about the difference between lenders, brokers and bankers. The primary focus point is that having to do with the need to disclose Yield Spread Premium (YSP), which is typically earned by mortgage brokers, and the non-disclosure of Service Release Premium (SRP), which is typically earned by bankers and lenders.

I would like to take some time to give my perspective on this matter. Much of this article includes excerpts from a recent letter I sent to the Board of Governors of the Federal Reserve in response to their proposed changes to RESPA. In my opinion, many of their proposed changes are based on the fundamental misunderstanding of how banks and lenders truly operate in this day and age.

I think most people believe that banks truly reach into their vault and cut checks to fund mortgages, whereas mortgage brokers use someone else's vault to have mortgages funded. It is certainly true that mortgage brokers do not fund mortgages, but, it is also true that the vast majority of loans funded by bankers are also not using "vault" funds. The vast majority of mortgages done today are funded on lines of credit. These loans meet the guidelines of the Government Sponsored Enterprises (GSE) or some other securitizing organization. A small number of these loans are actually maintained and serviced by the originating bank; the vast majority are sold to a servicing corporation or acquired by the GSEs for securitization.

It can be said that the vast majority of mortgages funded in today's market include the payment of a YSP, SRP or in many cases both.

As a licensed mortgage broker from the great State of Florida, we are licensed under Florida Statue 494. Under this statue all mortgage brokers must complete pre and post licensing education and undergo a background check. A mortgage broker MUST disclose all fees within three days of application (including YSP and broker fees).

Under federal law all mortgage broker compensation, including yield spread premium, is already disclosed on both the Good Faith Estimate and the HUD-1, even though there is no corresponding requirement for lenders to disclose compensation paid to their own sales staff. In Florida, we also disclose this information at application and again at lock-in.

When a consumer applies for a mortgage with a bank, they are able to shop only from the small portfolio of loans offered by that bank. The bank will steer that consumer into a loan they offer, even if there are better products available elsewhere. When that same consumer applies for a loan with a mortgage broker they receive access to many, if not all of the mortgage products available in the marketplace. This increases consumer choice and decreases cost.

It has been said that mortgage brokers do not represent the consumer. I agree that we don't. We serve as a transaction broker between the end lender and the consumer. I would argue that banks also do not represent the consumer, but instead represent the best interests of the bank. Mortgage brokers encourage shopping. Our cost of origination is so much less than that of banks, that the rates and costs for our borrowers are almost always far less than those of our competing banks.

My biggest concern is the separate but equal feeling I get when I read these proposed changes to RESPA. On one hand the broker, lender and banker are all equal originators falling under all the same federal guidelines and responsibilities, that is the equality. However, on the other hand, mortgage brokers are subject to increased disclosure, this is the inequality. With the differences being so minor, why is there such a drastic difference in disclosure requirements? If the consumer shops for the best rate and terms between a banker, broker or a lender, and based on this shopping chooses the broker; that consumer is now confronted with additional disclosures that infer a drastic difference between the origination entities.

For the clarity and best interest of the consumer, I simply must insist that any disclosures apply equally to ALL mortgage originators, not just brokers.

YSP has become a focus point of disclosure over the last few years. YSP is a benefit to consumers. YSP is to brokers what service release premium (SRP) is to bankers. Both of these fees become a known item at the time



D. Ritch Workman , CRMS  
Workman Mortgage Company

of rate lock. Brokers agree to a certain amount of YSP when they lock a loan with a lender and a banker agrees to a certain SRP when a loan is locked. The only difference between the two is that bankers only receive the SRP if they release the servicing to another party. For the last five or more years nearly all banks release their servicing within the first year, therefore earning their SRP.

A good example of broker YSP verses banker SRP is on the TV everyday. Bank of America (BOA) has recently released their "NO FEE MORTGAGE PLUS". If you call BOA they will offer you two loan products; their standard "lower rate" product that has all the fees associated with a mortgage and their NO FEE option loan which comes with a higher rate. This new product for BOA is exactly what brokers have been doing for years; they are simply using their SRP to pay the closing costs associated with the mortgage. Brokers have been using their YSP to lower the cash to close for consumers' since the inception of YSP. This BOA example also highlights the similarity between bankers and brokers.

It is also an often overlooked point that, in addition to SRP, many banks are using their wholesale lines to fund loans that are actually brokered. These banks are earning and obtaining a YSP, as well as a SRP. But, because of Federal exemption these bankers are not required to disclose.

The Fed's, by making my small businesses disclose fees that the banks do not, leave me at a competitive disadvantage. If I were a banker / competitor of my broker company, I would simply point out this odd fee the broker is "charging" to the consumer and let them know that I am not. Sure, my rate is higher and the cash to close is more, but look at that big fee the broker is charging. If you have any sense of competition, I implore the Federal Reserve Board to rethink this additional burden on America's small businesses.

I, as a mortgage broker, do not want special treatment. I simply want to be treated equally. Instead of allowing the banks to legislate themselves an advantage, I encourage the Federal Reserve Board to create a level playing field where all can compete for mortgage business. The end winner is the consumer!

A handwritten signature in blue ink, appearing to read "D. Ritch Workman". The signature is fluid and cursive, with a large initial "D" and "W".

D. Ritch Workman, CRMS  
FAMB President