



Yield Spread Premiums

Yield spread premium (YSP) pricing is just one option brokers may offer borrowers to suit the consumers' financial needs and goals.

Many times a borrower does not have enough cash up front for closing costs and fees. In this situation, they can choose a higher interest rate, which will allow them to roll all of the closing costs and originator fees into the rate through YSP.

YSP ensures that a borrower has the ability to finance closing costs as they deem appropriate for their individual circumstances (i.e. cash available at closing, length of time planning to remain in home, refinance, etc.) YSP allows borrowers to choose low-cost and zero-point financing for their homes.

Through YSP, the originator is compensated for their work through the interest rate. This way, the borrower does not have to pay the originator with cash at closing. The borrower does not get a huge check and then pay these costs one by one. The lender takes care of it when closing costs are included in the rate.

YSP is a tool for consumers, but should not be a means for predatory mortgage originators to receive extra compensation.

H.R. 1728, Section 103, "PROHIBITION ON STEERING INCENTIVES"

The anti-steering provisions in H.R. 1728 seek to prohibit mortgage originators from receiving extra compensation for "steering" borrowers into more expensive loans. It is right to prohibit loan originators from being incentivized by lenders to offer products that are against borrowers' interests.

Impact of H.R. 1728 on Consumers

Rather than protecting consumers the language in this section will have the practical effect of targeting only the mortgage brokerage industry and making loans more profitable for lenders.

The broker's direct and indirect compensation is always disclosed to the borrower. Lender compensation is not disclosed. Mortgage brokers will be limited in what they can earn in Yield Spread Premium but the secondary marketer will be able to sell this loan for a higher than normal return because of the artificially high rate under which it was originated.

Steering typically involves unsophisticated borrowers who in most instances are not aware that they may very well qualify for better loan terms. These borrowers are most vulnerable to being placed in a high cost loan programs and need the protection that legislation can afford them.

FAMB feels that any prohibitions on steering should apply to only high-cost mortgage loans or only to loans that would fall under an expanded definition of "qualified safe harbor mortgages."