



Eliminating Systematic Overcharges on Home Loans:

Fed Issues Final Rules on Yield Spread Premiums

The Federal Reserve Board issued final rules that take a big step forward in reining in arbitrary overcharges on mortgages resulting from “yield spread premiums” – i.e., kickbacks to brokers or lenders for making loans more expensive when borrowers qualify for a better deal.

Background

On Monday, August 16, 2010, the Federal Reserve Board issued final rules on how mortgage originator compensation and anti-steering. YSPs have been a legal form of compensation, but they are essentially kickbacks brokers and lenders receive for steering borrowers into loans that are unnecessarily expensive—and often with higher risk of foreclosure.

The Fed’s new YSP rules are consistent with the proposed rule they issued earlier. A key part says that a loan originator can’t get paid more based on a loan’s interest rate or other loan terms. The rule also strengthens protections against steering borrowers into bad loans, but it doesn’t go far enough.

Key Points

- **Systematic overcharges on home loans, fueled by “yield-spread premiums,” played a significant role in the mortgage meltdown.**
 - Almost 75% of all subprime loans made by mortgage brokers came with a YSP, and brokers were notorious for targeting communities of color.
 - According to CRL research, mortgages made by brokers cost Americans nearly \$20 billion more than comparable home loans made directly by lender.
 - According to the Wall Street Journal, six out of 10 subprime borrowers in 2006 could have qualified for a less expensive prime loan.
- **Even though the Fed’s final rules come too late to avert the crisis we’re still dealing with today, overall these rules go far in ensuring that future home loans are priced more fairly.**
 - Brokers can no longer legally receive more pay for higher interest rates or riskier terms.
 - If this rule had been in place earlier, borrowers in the subprime market certainly would have received fairer and more affordable, sustainable loans.
- **The Fed is still too cautious in addressing “steering” – pushing borrowers into bad loans.**
 - While the new rules prohibit lenders from pushing borrowers into a particular mortgage just to get higher pay, there is a broad “safe harbor” that leaves room for loopholes.
 - We look forward to working with the Office of Fair Lending and the new CFPB to strengthen anti-steering positions to make equal access to good loans a reality.

The Fed’s rules are not as strong as those expected from the new financial reform bill. The Dodd-Frank bill goes even further in protecting families from compensation practices that give lenders strong incentives to steer borrowers into unnecessarily expensive and risky loans.

Fed’s press release on this rule: <http://www.federalreserve.gov/newsevents/press/bcreg/20100816d.htm>

General information about YSPs: <http://www.responsiblelending.org/mortgage-lending/tools-resources/yield-spread-premiums-ymps.html>