Bans on Yield-Spread Premiums and Steering:
Protecting Homeowners and Strengthening the Mortgage Market

What is a "yield-spread premium?

It's a bonus a lender pays to reward a mortgage broker for placing, or steering, a borrower into a higher-cost loan than the borrower qualifies for. Many lenders pay this premium---essentially a kick-back to brokers---only when the loan has a prepayment penalty that helps trap the borrower in the higher-cost loan long enough for the lender to recoup the cost of the payment to the broker.

Why should we ban yield-spread premiums?

Yield-spread premiums are a destructive feature of the subprime market because they give brokers an incentive to act contrary to a borrower's best interest. They cause families to be steered into loans that cost more than is appropriate and that borrowers can't afford over the long run. When a borrower loses a home to foreclosure, society pays the price in the drop in surrounding property values and lost tax revenues.

FAST FACTS

- 85% to 90% of all brokered subprime mortgages have yield-spread premiums.

- There is no legal requirement to inform borrowers about the connection between a yield-spread premium and the interest charged on a loan.

- More than 75% of the borrowers with loans that included a yield-spread premium could have used a less expensive method to help pay closing costs.

- On a $200,000 subprime loan, a broker would get $4,000, or a 2% yield-spread premium, for steering a family into a loan with an interest rate that over four years will force the borrower to pay $10,000 more than he or she should.

- Among subprime borrowers in 2005 alone, we estimate 1.5 million families incurred loans slated to cost $2.6 billion more per year as a result of extra interest charges associated with yield-spread premiums.

- Yield-spread premiums are one reason that, among borrowers with similar risk profiles, black and Hispanic families are more likely to receive a higher-cost mortgage than white families.