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(continued from front page)

disclose any back-end earnings to the consumer. In fact, if we earn any funds on the back end, after taking out our commissions from those funds, the entire remainder has to go to the borrower in the form of a rebate to help offset the borrower's closing costs. Not so for a direct lender/bank. Not only does a direct lender/bank get to pocket the back-end earnings with no requirement of passing any of the rebates to the consumer, the direct lender doesn't even have to disclose those earnings on their estimates and on the final settlement statement at close of escrow.

The new QM requirements continue with special rules for direct lenders and banks because the disclosing requirements allow them to not show the back-end earnings, therefore, those earnings are not counted towards the 3% cap.

To better understand these back-end rebates, we have to revisit how mortgage interest rates are sold to the borrower. Every day on every loan product, there is a spread of interest rates given by the lender. Within that spread, each rate offered, usually in .125% increments, comes with a cost or a rebate in "points." One point is the equivalent of 1% of the loan amount. The lower the rate, the higher the cost in points. Conversely, the higher the rate, the lower the cost in points and the higher the rebate. To achieve a "no cost" refinance, for example, the borrower must select a high enough interest rate to receive a large enough rebate to cover all of the closing costs. When working with a direct lender, the only lender costs that need be disclosed and counted towards the QM cap are the points being charged at the lower interest rates in the overall daily rate spread as well as any processing, underwriting, and administrative fees.

So while the QM continues to pressure mortgage brokers by limiting their earnings which will result in lower rate options for consumers, it does very little to keep the banks in check. Be very careful how you compare and contrast loan options between direct lenders and mortgage brokers. The bankers have been using these special rules to try and portray mortgage brokers as being a more costly option since the banks don't have to disclose the back-end earnings and this will continue with the new QM rules. Make sure you compare "apples to apples" when shopping banks against brokers.

I think the consumer will be pleasantly surprised to find that with the new QM rules, brokers will continue to be the more competitive option in most cases. Also, I haven't earned a 3% commission since the old days of sub-prime mortgages and even then, the majority of my sub-prime loans were in the 2% range. All of the prime loans that I have ever originated since I started working through a broker model in 1998 have been for less than 2% commission with the vast majority at 1.5% or less.

QM will not affect my business and it will help the consumer by limiting the commissions earned that directly and positively impact the kinds of rates that are being offered by the broker to the consumer. Please feel free to call me if you need further clarification.

*As always, your loan guy,
Viral (Vic) Joshi*

P.S. If you want to get more timely market updates, I have a weekly newsletter that goes out via e-mail. E-mail me, **viral@vicjoshi.com**, so that I can put you on the mailing list.

Vic's

Mortgage Report

"Home of Free Mortgage Consultation"

Viral (Vic) Joshi

Branch Manager/
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Hello Friends,
The New Year started out with more major overhauls to the mortgage industry. The Consumer Finance Protection

Bureau (CFPB) amended the current mortgage lending regulations by adding a new requirement called the Qualified Mortgage or QM. QM revised the Truth in Lending Act requirements by putting a cap on the total amount of earning a broker and lender can earn on a mortgage transaction. This cap for a brokered mortgage is 3% of the loan amount. That 3% includes all commissions earned as well as all processing, underwriting, and administration fees charged by the broker and lender through the transaction. Direct lenders, banks who lend to a consumer outside the broker channel, aren't necessarily forced to adhere to this fixed cap, since direct lenders don't have to disclose the earnings they make on the back end of the deal. This concept of back-end earnings that are not disclosed to the consumer applies only to direct lenders.

The banking lobby, one of the largest and most influential in Washington DC, has helped create special rules to keep the playing field uneven between direct lenders/banks and mortgage brokers. As a mortgage broker, I have to

(continued on back page)

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