COMMUNITY HOME LENDERS OF AMERICA

April 10, 2024

The Honorable Rohit Chopra
Director
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, DC 20552

Dear Director Chopra:

The Community Home Lenders of America (CHLA)[1] writes to comment on the March 8 CFPB BlogPost **"Junk Fees are Driving Up Housing Costs"** and the April 5 ***CFPB Report on Discount Points***.

The CFPB report on discount points provides data on the use of discount points, providing information that may be useful to borrowers and policy makers alike in understanding the use of discount points. CHLA believes that a similar report on junk fees and excessive costs charged by third party service providers in the mortgage loan process would also be useful.

CHLA publicly commended the CFPB for raising these issues in its March BlogPost. CHLA now writes to request that the CFPB carry out a comprehensive report on third-party mortgage fees, including:

- **FICO Credit Score Fees**
- **Credit Bureaus' Credit Report Fees**
- **ICE Technology vendor access fees and (one way) user seat charges.**
- **Equifax – The Work Number (TWN) Employment Verification fees.**
- **Title Insurance.**

Such a report could address the following issues for these third-party servicer providers and costs:

- Average per loan costs of these fees.
- Price increases in the last few years and the justification, if any, for such level of increases.
- The extent to which the dominant service provider is a monopoly or quasi-monopoly.
- Alternatives to the dominant market player(s) in each area.

The CFPB already highlighted these concerns in their March BlogPost, stating that:

'It appears that some closing costs are high and increasing because there is little competition. Borrowers are required to pay for many of the costs associated with closing a home loan but cannot pick the provider and do not benefit from the service. In many cases, the lender simply picks from a very small universe of providers, and the costs are then passed on to the borrower.'

In some cases, mortgage lenders charge these costs to the borrower and disclose them on TRID forms - and in some cases the mortgage lender simply absorbs these costs and rolls them into loan pricing. However, since these services are generally required in the underwriting process by the federal mortgage agencies (FHA, GSEs, VA, RHS), these costs are inevitably passed along to the consumer in either case.

[1] CHLA is the only national trade association focused exclusively on small and mid-sized independent mortgage banks (IMBs).

Since some of these services lack effective market competition, CHLA believes that the best approach to bring down these costs is transparency, as well as public scrutiny and pressure to bring down fee levels.

For those reasons, CHLA would oppose any regulatory action to reduce transparency in TRID disclosures, by eliminating the option for a lender to identify these costs as a line item on TRID disclosures. We believe consumers deserve a detailed accounting of the loan components of costs of these mortgage loan underwriting components.

Moreover, the elimination of such itemization would **reduce** the transparency and scrutiny that CHLA believes is needed to bring down such excessive costs, particularly charges by quasi-monopoly service providers. Instead, as we recommend, CFPB should shine a light on these costs through a detailed report.

Regarding the issue of discount points, CHLA would note that these are not "junk fees," to use a term from the March CFPB Blogpost. As last week's CFPB report acknowledges, *"Discount points are a one-time fee paid at closing to a lender in exchange for a lower interest rate."* Moreover, the flexibility to use discount points to reduce mortgage rates is an important consumer option, and an unequivocal benefit when the borrower intends to hold on to the home and loan for a long period of time.

Unlike fees like credit report fees and ICE vendor access fees, where there is little or no real market competition, there are few markets that are more competitive than the market for mortgage loans.

Significant numbers of independent mortgage banks (IMBs), along with many banks, actively compete to originate mortgage loans for consumers. The ability of consumers to comparison shop is particularly strong for re-finances, where it is easy to get a number of competing loan quotes from different lenders.

We raise this last point, because last week's report made the claim that discount points have *"uncertain value for borrowers*."

Most people would agree that it is easier to comparison shop among different lenders on refinance loans than on home purchase loans. Direct rate and cost comparisons between lenders are easier for refis, because the transaction is less complex and borrowers are not concerned about a looming contract deadline to close the home sale.

Therefore, if discount points represented an *uncertain value for borrowers"* – with the implication that discount points are overcharging borrowers and a lack of competition facilitates such an outcome - we would have expected home purchase borrowers to pay higher discount points than refinance borrowers.

In fact, as the CFPB discount point report data clearly shows, the opposite is true.

The report states that *"discount points were most common among borrowers with cash-out refinance. . ."* and that the level of discount points for refinances was twice the level of discount points for home purchase loans.

Finally, there are objective, market-driven factors that are responsible for the increase in the use of discount points over the last few years.

Borrowers had no good reason to buy down mortgage rates when 30-year mortgage rates were 3% - but have obvious reasons to do so when they are at 7%. Additionally, secondary markets became choppier as rates increased and the Federal Reserve stopping buying mortgage loans; often, MBS investors were unwilling to buy higher coupon notes, which forced the use of rate buydowns (and discount points).

Junk Fees and Other Third Party Service Provider Fees

Over the last two years, CHLA has sent several letters raising concerns about the lack of competition and the unwarranted rise in costs of certain third-party mortgage loan service provider fees. We raised these issues based on the experiences of our mortgage lender members, who are concerned about the negative impact on these mortgage costs on borrowers and on homeownership affordability.

ICE Vendor Access Fees. In October 2022, CHLA wrote a **Letter** asking federal regulators to ban "click fees' – which are junk fees that Ice Mortgage Technology charges mortgage lenders just to access data from the vendors they hired to assist in the mortgage loan process. The letter also calls out one way user seat charges – one way contracts where user seat charges increase with a lender's number of user seats – but does not decrease when that number then declines.

Credit Score Fees and Elimination of Discount for Soft Credit Pulls. In November 2022, CHLA wrote a **Letter** objecting to a proposed 400% year over year increase in FICO Credit Score fees (which were then increased January 2024 to 500%). And in February of this year, CHLA wrote a **Letter** asking the three major credit bureaus to restore discounts for "soft credit pulls" – an important option to help underserved borrowers improve their credit score and qualify for a home to become a 1st time homebuyer.

Additionally, in January of this year, CHLA released a comprehensive **Report** on credit score pricing and practices.

Equifax – The Work Number (TWN) Verification Fees. In March of this year, CHLA wrote a **Letter** highlighting the high cost of Equifax Work Number verification fees, citing the lack of competition for third party service providers in this area.

Title Insurance. In December 2023, CHLA wrote to a **Letter** to FHFA which expressed general support for the potential use of Attorney Opinion Letters as an alternative to title insurance, to bring down closing costs for borrowers. Subsequently, FHFA and Fannie Mae announced a pilot program for refinances which waives title insurance, a move that CHLA has publicly supported.

Thank you for consideration of these comments and recommendations.

Sincerely

COMMUNITY HOME LENDERS OF AMERICA