



NEW YORK STATE SENATOR

Liz Krueger

Krueger Announces Senate Passage of Ban on “Yield Spread Premiums”, Predatory Lending Practice

LIZ KRUEGER March 21, 2012

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Albany, NY – State Senator Liz Krueger (D-Manhattan) today announced the passage of her legislation permanently banning “yield spread premiums” in New York State ([S. 886](#)). This practice created perverse incentives in the mortgage market, fleecing families and creating instability in the nation’s financial system, ultimately contributing to the national mortgage foreclosure crisis.

Yield spread premiums are payments made to mortgage brokers or lenders for steering borrowers into more expensive loans, often increasing the risk of foreclosure. With yield spread premiums, brokers or lenders are given additional compensation based on the difference between the return on investment of a standard loan and the more expensive loan the borrower is steered into. Consumer advocates and researchers have described this practice as a “legal kickback” for pushing borrowers into riskier, more expensive loans.

“Yield spread premiums have created perverse incentives, driving irresponsible, dangerous activity in the mortgage market,” said Sen. Krueger, ranking Democratic member of the Senate’s Finance Committee. “It’s a predatory practice, and it’s passed time we banned it – permanently.”

According to the Center for Responsible Lending, almost 75 percent of subprime loans made by mortgage brokers came with a yield spread premium. According to the Wall Street Journal, six out of every ten subprime borrowers in 2006 could have qualified for a less-expensive prime loan.

In the past year, the Federal Reserve Board has moved to institute a regulatory ban of yield spread premiums. Sen. Krueger's bill strengthens protections for consumers by banning the practice in New York State law, immediately. The Dodd-Frank Wall Street Reform and Consumer Protection Act passed by Congress contains provisions banning yield spread premiums, but they are not due to be implemented until 2014.

The bill passed the Senate with a bipartisan 59-1 vote on Wednesday, March 21. It now awaits action by the New York State Assembly, where it is sponsored by Assemblymember Inez Barron (D-Brooklyn) as A. 7329.