Quicken Loans
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Testimony of Quicken Loans
On House Bill 150

House Financial Institutions Committee
January 30, 2020

Good morning, Mr. Chairman and fellow members of the House Financial Institutions Committee, my name is Julie Booth. I am the Chief Financial Officer of Quicken Loans. We are the largest mortgage lender in Ohio, and the largest mortgage lender in the United States – by total loan volume. Quicken Loans is proud to employ more than 500 Ohio-based team members in our Cleveland office. As you may be aware, our Chairman, Dan Gilbert, enjoys a strong tie to the state through his role as the governor of the Cleveland Cavaliers – among other businesses in Northeast Ohio. I am pleased to be here today to offer testimony on House Bill 150. Specifically, Quicken Loans is here to ask you to provide our industry with tax fairness.

For a little background, prior to tax year 2014, mortgage lenders with a physical branch in Ohio paid state tax on their income under the state Dealer in Intangibles tax, or DIT. The DIT was a unique tax applicable to certain financial services organizations, including, but not limited to, mortgage lenders, securities brokers and entities extending credit or buying and selling securities as required under Ohio's statutory definitions. The DIT was eliminated in 2012, effective with the 2014 tax year. Under the legislation, to the extent that such entities were not subject to a newly created Financial Institutions Tax, referred to as the FIT, we became subject to the Ohio Commercial Activities Tax, or CAT. Non-depository mortgage lenders did not qualify as a "financial institution" under the FIT and are thus subject to the CAT.

Our understanding, based on more than a year of meetings with the Ohio Department of Taxation, and individuals who took part in enacting the FIT, is that regardless of whether the DIT taxpayers became subject to the FIT or CAT, the intent from lawmakers and the administration was for the change not to place a higher tax burden on the taxpayer. However, the move from the DIT to the CAT resulted in a significant increase in Quicken Loans' tax liability – in fact, we estimate that Quicken Loans pays 2½ times more in tax, on average, under the CAT than we would if the DIT were still in place.

Further, the taxes we pay in Ohio are higher than anywhere else in the country. Based on our experience in other states – which vary widely in how they tax our industry – the applicable tax rate is typically between 3 and 13 percent. Under the CAT, we have effectively been taxed at a rate in excess of 25 percent on our Ohio earnings. As a point of reference, Quicken Loans pays more taxes in total to Ohio than we do to California – a state where we originate significantly more mortgages, and the mortgages are typically larger due to higher housing costs.

The increase in tax under the CAT is because definition of "gross receipts", as currently applied to our industry, encompasses much more than our actual gross receipts. A mortgage lender is currently taxed on the full value of a loan originated in the state and the gain/loss upon sale, rather than just the value that the mortgage lender derives from the transaction. By way of a simple example:

If a mortgage lender originates a loan of $100,000 on a property located in Ohio, the mortgage lender generally retains that loan on its balance sheet, funded by a 3rd party lender, for a period of two to three weeks. The loan is then bundled into a mortgage-backed security that is sold for a gain of $3,000. Ohio taxes the mortgage lender on $103,000 as opposed to the $3,000 in actual receipts on the sale that the mortgage lender receives. The $100,000 received repays the loan that we made to our client and the $3,000 is revenue that can be used to cover our expenses, including state taxes.

The majority of Americans, and Ohioans, receive their home financing through non-depository lenders. The burden of a much higher tax liability under the current CAT results in less opportunity for non-depository lenders to invest in hiring more team members, new product offerings, new technology, and other business initiatives, which negatively impacts consumers. While the housing market and finance industry have improved in Ohio, some mortgage lenders have limited their activity in the state.

Due to this disparity and the unintended significant increase in tax liability, Quicken Loans, and mortgage lenders obligated under the CAT here in Ohio, are seeking a legislative change. We are requesting your support of Substitute House Bill 150 which includes a definition of “gross receipts” in section 5751.01 of the Revised Code that accurately reflects our gross receipts.

Thank you for the opportunity to be here today, and I am happy to answer any questions.