



## OHIO MORTGAGE BANKERS ASSOCIATION

Chairman Jordan, Vice-Chairman Hillyer and members of the Committee, my name is Jay Pascoe and I am the Executive Director for the Ohio Mortgage Bankers Association. The Ohio Mortgage Bankers Association is a trade group representing the real estate finance industry. Our members consist mostly of independent mortgage banking companies, banks, and credit unions. Our members employ thousands of individuals in the state of Ohio. I am here today regarding the impact of independent mortgage banking companies (referred to as mortgage bankers), in the payment of the Commercial Activity Tax (CAT). The amendment to H.B 150 addresses an unforeseen issue that resulted in an unintended tax increase for mortgage bankers that were formerly paying the dealer in intangibles tax and are now required to pay the commercial activity tax. Under the current statute, a mortgage banking company is treated very differently than banks, credit unions, and mortgage brokers.

As a result of this unintended tax increase, mortgage bankers in Ohio pay higher taxes than any other state in which they do business.

Because mortgage bankers do not have depositors, the funds they lend in a real estate transaction are borrowed on a warehouse credit line. After the loan is made to a consumer, the lender delivers that loan into the secondary market, and is paid by the investor for the future value of the interest collected and/or servicing income generated. When the loan is sold into the secondary market, the lender must repay the funds borrowed from the warehouse credit line. Therefore, their gross profit is the difference between the amount of the loan and the payment received from the investor. However, current statute fails to exempt the amount of the loan from the gross profit for a mortgage banker, which is not the case in the treatment of a mortgage broker's gross profit.

Example: A mortgage banker (the lender) borrows \$200,00 from their warehouse credit line to lend to a consumer. After the loan closes, the lender delivers the loan into the secondary market and is paid \$206,000. The first \$200,000 pays back the funds that the lender borrowed from their credit line, and the remaining \$6,000 is gross profit to the lender. Under the current iteration of the Commercial Activity Tax, the mortgage banker is taxed on the \$206,000, rather than the \$6,000, which truly represents their gross revenue.

In the exemptions in the statute, section 5751.01 of the Ohio Revised Code, exempt from gross receipts for a mortgage broker are, “Funds received or used by a mortgage broker that is not a dealer in intangibles, other than fees or other consideration, pursuant to a table-funding mortgage loan or warehouse-lending mortgage loan”. In other words, a mortgage broker originating that same \$200,000 loan and earning a \$6,000 fee from a lender, is only taxed on the \$6,000.

To be clear, it is not our intention for mortgage bankers to avoid taxes. Our intention is to make sure that mortgage bankers pay a fair tax. Therefore, keeping mortgage bankers subject to the Commercial Activity Tax, but exempting the loan amount from the gross receipts, would level the playing field and insure that mortgage bankers pay a fair tax, truly based on their gross taxable revenue.

Thank you for the opportunity to comment.