PATRIOT PACIFIC FINANCIAL CORP

022223-MP

Memorandum

To: LO's, Management

From Charles Vamadeva

Date: February 22, 2023

Re: **Changes to Fee & Comp Structure on Correspondent Loans**

As we've grown our team nationally, we discovered that the fee structure on our Correspondent channel was not conducive to business in regions with lower loan sizes. This also applies to certain regions here in CA also. Many of you have had much success on the Correspondent channel, but in some cases it's been a challenge.

The Correspondent channel offers several benefits, which include (but are not limited to):

- Ability to have flexible comp
- Ability to work around the restrictions on Borrower Paid VA loans
- Ability to not disclose comp on CD
- Ability to select AMC for appraisals – we've had terrific service with A1 for example.
- Ability to adjust Comp and Lender credit seamlessly during the transaction with minimal redisclosure

Benefits in any business enterprise have costs associated with it. For this reason, and to stabilize profitability, the company has carried a nominal pricing holdback [CONV VA USDA JUMBO] + charged a $495 admin fee.

Some background on both:

[A] $495 admin fee

This helped offset: the cost of Interest for loans sitting on the warehouse line until they were sold + the cost of funding loans + the cost of post-closing handling. In reviewing the past 50 funded Correspondent loans, we've learned that we were "in the black" by about $90 on average.

[B] Pricing Holdback

The pricing holdback enabled us to function and foster profitability like thousands of UWM Correspondent brokers do nationwide. To add to this, we have been operating on a very thin margin from an LO compensation model. The holdback was a way of garnering some kind of profitability,

especially in a difficult market. We've limited that holdback to between 0.125% and 0.25%, which, according to UWM's AE Danny Marogy, is "cheap and inexpensive" compared to other mini Correspondent set ups. He pointed out that a well-known Brokerage in Rancho Cucamonga has their holdbacks set at 100bps, and the Owner tells the MLOs to 'take it or leave it'. Obviously, that is not how we operate here at Patriot Pacific.

At different times during the past couple of years, we've run across pricing disparities which MLO's unreservedly attributed solely to our pricing holdback. Upon further research and digging, we've learned that three dynamics are actually responsible for nearly any such pricing disparity when it comes to UWM: [1] In the most recent case that I questioned, UWM responded by pointing out that a particular broker whose pricing appeared to be 40+ bps better than ours was closing 200+ loans with UWM alone. Essentially, their "rate sheet" was better due to volume. [2] UWM is notorious for tweaking their pricing in the market at certain times for seemingly no apparent reason. Broker communities nationwide on social media are quick to point it out. It's no secret and when it happens, Brokers bash the UWM management and run to other Wholesale lenders. I suppose we will never know the inner workings of a Billion dollar corporation. [3] Our Status at any given time [e.g. Diamond] dictates pricing levels. And that status is driven each QTR by several factors, including how clean our files are and our Lock pull through ratio, etc., not just volume. Some of our MLO's take the majority of their files to UWM for the sake of speed and automation. Then there are those who'd steer files away for 0.01% in pricing it seems. We as a Brokerage have never dictated file placement, and we never will.

We have made significant cutbacks on company expenses while running as skinny as we can, to keep our doors open while supporting each other during this difficult market. We believe we have been fair and honest in what we provide here. As you are all running your own business within our business, we wouldn't expect you to run your business in the red, and we hope you wouldn't expect us to do that either.

We believe the above clarity and transparency were needed before laying out upcoming changes we are putting in place. These changes are being implemented to give ***<u>EVERYONE</u>*** the flexibility that the Correspondent channel offers without making it relatively expensive.

CHANGES EFFECTIVE WITH CREDIT REPORTS PULLED 3-1-2023 and onwards:

- PROCESSING FEE lowered to $1095 for all Loans, all Lenders, both Brokered & Correspondent.
- ADMIN FEE lowered from $495 to $275 for all Correspondent Loans [UWM, HOMEPOINT, PLAZA etc]

BROKERED LOANS: No Changes *[i.e. $795 Company Flat Fee off the top before MLO Split under Team Compensation model and Pioneer Compensation Model.*

CORRESPONDENT LOANS:

- Team Plan Comp: no changes. [i.e. $500 Company Flat fee before your MLO split]

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This decision is being deemed as suicidal by some Mortgage peers we know, whom we've discussed with. However, we are banking on YOU and betting on YOU. We are willing to lower our margins, to help YOU win more deals, believing that volume/units will increase. In other words: whether a deal is Brokered or done Correspondent, let's just do MORE DEALS. Make no mistake, we are not compromising our right in the world of free enterprise to make a profit. We are just saying that we are willing to lessen our margins per deal to help YOU ultimately CLOSE MORE DEALS and WE ALL WIN.

I should add the following: As the Company makes a move in your favor, I reiterate and implore you to choose our Escrow when it comes to refinances, and if you are listing a home as a DRE Licensed salesperson here in CA, to choose our Escrow as well. This helps bring stability and longevity for all the wonderful things we have planned going forward.

PS for those under the Pioneer Comp Plan, you'll receive an Addendum to Docusign within next 3-5 business days, indicating the Company Flat fee removed.

PS - for some of you, whether Team Plan or Pioneer Plan, we don't have a credit card on file for the monthly technology fee. Plz look for that Addendum shortly.