

# **REGULATION Z: LOAN ORIGINATOR COMPENSATION GUIDE**

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**Wholesale Originations**

**For Mortgage Professionals Only**

**Effective: April 1, 2011**

(REV040915BB)



# Overview

- This update is intended to provide you with additional guidance and to help you comply with the new rules of the Regulation Z amendments.

## ATTENTION

This information is not intended to be legal advice to any person or entity. It is being provided as a service and the information contained herein is drawn from various public sources, including other publications. Please consult your own counsel on how these changes may affect you and your business.

We will continue to provide updated information to keep you informed.

# Important Dates for Loans Submitted to Interbank

- The Regulation Z (TILA) amendments regarding loan originator compensation go into effect with loan applications Interbank receives on or after March 31, 2011.
- Loan Originators will be compensated under the old plan on all loan files received on or before March 30, 2011.

# Summary of Regulatory Changes

- ❑ **The new amendments provide three prohibitions on loan originator compensation:**
  1. Broker's compensation cannot vary in any way with the interest rate or any other loan terms.
  2. Steering the borrower to a specific loan product or lender is prohibited.
  3. Brokers cannot collect compensation from both the borrower and the lender.

# How Can Loan Originators Be Compensated?

- Individual loan originators can be paid a salary, hourly wage, or on a percentage of the loan amount.
- Brokers are required to set their compensation levels, reflecting the level of compensation they want to receive from Interbank.
- Compensation plans are to be submitted from March 14-18, 2011 and are subject to review and approval by Interbank.

# Compensation Policies

- Compensation policies must address how individual loan originators employed by the broker will be compensated.
- Once the broker selects a compensation level, it is locked into the broker's profile and may only change on a calendar quarterly basis.
  - At that time, the broker will have a two week period to review their compensation policy and make changes, if necessary.

# Prohibition #1: Rate and Terms

- Broker's compensation cannot vary in any way with the interest rate or any other loan terms.
  - Compensation includes amounts the loan originator retains and is not dependent on the label or name of any fee imposed in connection with the transaction.
  - Examples of compensation are annual or other periodic bonus; awards of merchandise, services, trips or similar prizes.

# Prohibition #2: Steering

- Steering the borrower to a specific loan product or lender is prohibited.
  - Directing or “steering” a borrower to a particular credit transaction means advising, counseling, or otherwise influencing a consumer to accept that transaction.
  - A loan originator may not direct or steer a borrower to a lender or specific loan program offering less favorable terms in order to increase the loan originator’s compensation.
  - The amendments provide a safe harbor from steering if the consumer is provided an anti-steering disclosure showing various loan offers for all program types in which the consumer has shown an interest (30-year fixed, 15-year fixed, 30-year ARM, etc.).
  - Interbank will require an anti-steering disclosure to ensure compliance with the safe harbor rule for loans in which the loan originator is compensated under the Lender-Paid option. The disclosure must be signed by the borrower, dated prior to the interest rate lock-in date and received by Interbank prior to closing.



# Prohibition #2: Anti-Steering Disclosure

- The anti-steering disclosure must include the following:
  - The lowest interest rate for which the consumer qualifies which could include discount points and “risky” features,
  - The lowest total dollar amount for discount points and origination fees, and
  - The lowest rate for which the consumer qualifies for a loan with no “risky” features (prepayment penalty, negative amortization, balloon payment, etc.)

**NOTE:** If any of the aforementioned examples are not applicable to the borrower, they need not be shown in the disclosure. For example, if there are no programs available to the consumer with a prepayment penalty, a loan offer with a prepayment penalty would be not required to be provided.

## Prohibition #3: Borrower-Paid or Lender-Paid

- **Brokers cannot collect compensation from both the borrower and the lender.**
  - On a loan level basis, the broker will be required to designate at the time of application the compensation method; Borrower-paid or Lender-paid.
  - The broker may choose which method works best for their respective business model.
  - For purposes of loan originator compensation, seller contributions are considered “paid by the consumer”.
    - Therefore, under the Borrower-paid compensation method, seller contributions can be used to pay for third party closing costs, lender fees, and/or broker compensation.
    - However, under the Lender-paid compensation method, seller contributions can only be used to pay for third party closing costs and lender fees. No portion of your broker compensation can be paid with seller contributions.

# Borrower-Paid vs. Lender-Paid Compensation

	Borrower-Paid	Lender-Paid
<b>Source of Compensation</b>	All broker compensation paid by the borrower at closing with their own funds or with the proceeds of the loan.	All broker compensation paid by Interbank through interest rate yield.
<b>Amount of Compensation</b>	Broker negotiates broker origination fee and processing fee directly with the borrower.	Broker will choose their compensation margin in which they wish to operate; subject to change during a two week review period quarterly.
<b>Premium Pricing Credit</b>	Any premium pricing credit must be credited to the borrower and may only be used to pay third party closing costs and any Interbank lender fee.	Any premium pricing credit must be credited to the borrower and may be used to pay third party closing costs, broker fees and any Interbank lender fee.
<b>Steering Provision</b>	Not Applicable.	Interbank will require a copy of the disclosure on or before closing. The disclosure must be signed by the borrower and dated prior to the interest rate lock-in date.

# Example: Borrower-Paid Compensation

- The following example shows an Interbank rate sheet and the proper disclosure of borrower-paid compensation on the GFE.
  - For this example, the loan amount is \$100,000. The rate selected is 4.625% for a 30 day lock and the above par pricing to the consumer is .500% or \$500. Negotiated Broker Fee = 1.5%; Broker Processing Fee = \$500; Lender Fee = \$450\*; Title and Settlement Services = \$1,500.

30-Year Fixed Rate Loan		
Rate	15 Day	30 Day
5.000	103.00	102.875
4.875	102.50	102.375
4.750	101.50	101.375
4.625	100.625	<b>100.500</b>
4.500	99.750	99.625

**NOTE:** The borrower credit can only be used to pay closing costs and lender fees, but cannot be used to pay any fees payable to the broker, or any of their affiliates.

*\*Lender Fee can vary by state.*

GFE Section	Amount	Calculation
Block 1	\$2,450	Broker Fee + Broker Processing Fee + Lender Underwriting Fee
Block 2	(\$500)	Credit to borrower of 0.500% for an interest rate of 4.625%
Block A	\$1,950	Block 1 + Block 2
Block B	\$1,500	Title and Settlement Services
Total Fees Paid by Borrower	\$3,450	Block A + Block B
Total Broker Compensation	\$2,450	Broker Fee + Broker Processing Fee

# Example: Lender-Paid Compensation

- The following example shows an Interbank rate sheet and the proper disclosure of lender-paid compensation on the GFE.
  - For this example, the loan amount is \$100,000. The rate selected is 4.875 % for a 30 day lock and the above par pricing to the consumer is 2.375% or \$2375.00 Lender-Paid Broker Compensation is at a 1.5% margin; Lender Fee = \$450\*; Title and Settlement Services = \$1,500.

30-Year Fixed Rate Loan		
Rate	15 Day	30 Day
5.000	103.00	102.875
4.875	102.500	<b>102.375</b>
4.750	101.500	101.375
4.625	100.625	100.500
4.500	99.750	99.625

**NOTE:** The borrower credit can be used to pay all fees in Box 1 including broker compensation

*\*Lender Fee can vary by state.*

GFE Section	Amount	Calculation
<b>Block 1</b>	\$1,500	Lender-Paid 1.5% Broker Compensation
<b>Block 2</b>	(\$2375)	Can be used to pay all fees in Box 1 including broker compensation
<b>Block A</b>	(\$875)	Block 1 + Block 2
<b>Block B</b>	\$1,500	Title and Settlement Services
<b>Total Fees Paid by Borrower</b>	\$625	Block A + Block B
<b>Total Broker Compensation</b>	\$1,500	Broker Fee + Broker Processing Fee

**For additional inquiries, please contact your  
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