



Federal Reserve Board's Final Rule, Anti-Steering and Safe Harbor Loan Originator Compensation and Agreements

OVERVIEW

The Federal Reserve Board published an amendment to Regulation Z addressing loan originator compensation and steering prohibitions. These provisions apply to all loans submit to JMAC Lending on April 1, 2011. The purpose of the new rule is to protect consumers in the mortgage market from unfair or abusive practices, while preserving responsible lending and sustainable home ownership. The rule impacts loan originators in all channels, including those originating transactions as a mortgage broker or correspondent/ creditor (bank). Highlights of the new rule include:

- Compensation based on the loan's interest rate, terms or conditions is prohibited; however compensation can be based on a percentage of the loan amount.
- Compensation can continue to be paid to loan originators from either the borrower or any other party (including the lender), but not from both on the same transaction. If it's a purchase transaction, it may be paid by the seller; therefore the borrower and lender cannot pay.
- Steering borrowers to accept a loan based on the fact that the loan originator will receive greater compensation for such loan is prohibited, unless the transaction is in the borrower's interest. The rule also provides a safe harbor to this prohibition on steering.
- Non-owner occupancy is exempted from this regulation.

BROKER COMPENSATION

To comply with the changes for the new rule, JMAC Lending will provide two options for loan originator compensation on every transaction: 1) borrower-paid compensation, or 2) lender-paid compensation. Brokers will have full control over which compensation method is used and the method can vary from one loan to the next. Highlights of each are shown below:

Compensation	Borrower-Paid	Lender-Paid
Source of	Paid by borrower from own funds	Paid by JMAC.

compensation	or loan proceeds.	
Amount of compensation	Negotiated by loan originator directly with borrower. Unrestricted as long as within high cost and fair lending tolerances.	Compensation formula based on a percentage of the loan amount.(this also included processing fee, etc..)
Variances in compensation	Can vary on each individual loan if pay directly to broker	Compensation formulas can be updated.
Concessions	Broker can lower compensation or offer credits toward third-party costs.	Broker cannot lower compensation or offer credits toward third-party cost.
Premium Pricing	Can be used to cover third-party costs, but not any portion of loan originator's compensation	Can be used to cover all third-party costs. At minimum the premium must cover the amount of your comp schedule.

ANTI-STEERING AND SAFE HARBOR

The rule also prohibits loan originators from steering borrowers to loans in which they receive greater compensation from the lender unless the loan is in the borrower's interest. In conjunction with this prohibition, the rule also provides a "safe harbor" for the loan originator if the borrower is presented with options for each type of loan in which the borrower expresses an interest. The options must be obtained from a significant number of the lenders with whom the loan originator regularly does business and include:

- 1) The lowest interest rate;
- 2) The lowest total dollar amount for discount points and origination fees;
- 3) The lowest interest without negative amortization, a prepayment penalty, or a balloon payment in the first seven years.

To protect all parties involved, JMAC will require an anti-steering to be certified by both the broker and borrower. <http://www.jmaclending.com/forms/>

Broker Compensation Agreements

Lender Paid Compensation Plan is available now from our website below the FORMS drop down list labeled Loan Compensation Plan.

The applicable compensation agreement will commence on **JMAC's submitted date**. In regards to lock extensions and re-locks, the loan is bounded to the contract that was active based on the initial submitted date.

For a company with multiple branches, only one lender paid compensation plan is allowed.

Borrower's Paid Option – (BPO): The origination percentage can change and broker will have to pay their LO in wages. The premier broker incentive does not apply.

Lender's Paid Option (LPO): The lender paid compensation plan and premier broker incentive both applies.

For the first roll out, you will need to make your compensation; otherwise all loans submitted for your organization using the “Lender Paid Broker Compensation” option will default to 1.500% plus any Premier incentive. The default minimum is set at \$1,500.00 and maximum is set at \$12,500.00.

No other broker fees may be charged or collected on any transaction in which your compensation will be paid by the lender. Therefore, you must consider all administrative, processing, and operational costs when setting your Lender Paid Broker Compensation plan.

Percentage levels can be adjusted monthly. The Lender Paid Compensation plan will remain in effect unless we receive an updated contract. This adjustment must be made prior to the first day of the following month.

If you have any question regarding Lender Paid Compensation Plan, please contact your Account Executive or your Account Manager. All Lender Paid Compensation Plan can be email to compensation@jmaclending.com.