



Crescent Mortgage Company

3-28-2011

Federal Reserve - TILA - Loan Officer Compensation Summary

Dear Crescent Mortgage Company Partner,

At Crescent Mortgage Company, we have made every effort to bring our valued customers the best training and most up to date, relevant information on the Fed rule changes to TILA/ Reg.Z. I acknowledge that these rules make little sense. The Fed has provided minimal guidance on how to comply with the rules. We have all struggled to find a single way that these changes benefit a borrower, will help the recovery of the housing market, or help avoid future problems to the housing market and the economy as a whole. But, as Voltaire famously quoted: ***“It is dangerous to be right when the government is wrong”***

Loan originators find themselves in a situation where under the new rule their personal compensation will be the same regardless of the lender they choose, or the interest rate given to the consumer. One of the questions you should ask yourself is “who are my real lender ***partners***”? What is a better rate worth on a ***loan that doesn’t close***? Certainly one of the effects of the rule is that savvy Loan Originators will choose to send their business to the lender who...

- Provides the most user friendly service
- Has the Account Executive that is the most trusted advisor to your institution
- Has the highest probability for closing the loan in the timeframe your borrowers expect
- Provides the best communication to you
- Provides you with the most complete menu of available loan programs and options

I assure you as your business partner, that Crescent Mortgage Company will continue to find ways to improve customer service, turn times, processes, and communication so that we will consistently be your lender of choice. Since 1993 we have continually strived to be the **best** wholesale and correspondent lender – not the biggest. We are totally committed to daily exceeding the expectations of our customers.

Fowler Williams, CMB
Executive Vice President and National Sales Manager
Crescent Mortgage Company

Below is a quick summary of information, effective dates, links to applicable documents and disclosures for customers of Crescent Mortgage Company.

Implementation:

- The rule is effective for loans received by CMC after Wednesday 3-30-2011.
- All registered or locked loans must be FINALED to Crescent Mortgage Company by the end of business on Wednesday 3-30-2011 to not be subject to new Fed Rule.
- Loans that will be funded by CMC and FINALED after 3-30-2011 are subject to new Fed Rule and applicable Lender Paid Compensation Agreements with CMC.
- CMC will temporarily suspend its requirement for proof of appraisal being ordered on refinance transactions. CMC does not require proof of appraisal order on purchase transactions.
- **REMINDER:** CMC [Administrative Fee Changes](#) effective on new loan application date taken by originator (not submission to CMC) April 1, 2011.

New Information:

- CMC will **NOT** make subject to new Fed Rule as it pertains to loan officer compensation, anti steering, dual compensation any loans that are:
 - Non Owner Occupied / Investment Properties
- You will always choose “borrower paid” option when registering or locking investment properties and disclose them as you do today.
- You will be able to price these loans at less than, or more than the amount of your CMC compensation agreement, and collect compensation from CMC and Borrower.

Compensation Agreements:

- If you have not done so already, please complete the CMC addendum to Broker/ Correspondent agreement – [Lender Paid Compensation Agreement](#).
- **If CMC funds ANY of your loans and we have not received your CMC Compensation agreement by end of business on Monday 3-28-2011, your institution will automatically be placed on a CMC compensation agreement at 1.5% of loan amount with no minimum or maximum dollar amount.**

Anti Steering and Disclosures:

- Anti Steering does NOT apply when 1) .Your institution is funding the loan under the CMC “Custom Correspondent” Program. 2) The compensation is “Borrower Paid”.
- On Loans where CMC is funding, and Lender Paid Compensation is the selected method of your compensation, an Anti- Steering disclosure will be required at time of submission. CMC has provided two Anti-Steering Disclosures. You may have the ability to upload these disclosures into you LOS system print groups. CMC has made available PDF and Word versions of these disclosures for this reason.
- [Anti Steering with loan option grid disclosure.](#) [Word Version](#)
- [Anti Steering borrower assertion disclosure.](#) [Word Version](#)
- You may choose to use either one of the disclosures, **not required to use both.**

- You do not have to use one of the CMC provided disclosures and may choose to use one created by your institution or your Loan Origination Software provider so long as it is similar in substance to the CMC provided anti steering disclosures.
- Borrowers are **NOT** bound to choose one of the options prescribed by the FED for the purposes of this disclosure and you are **NOT** bound to send the loan to one of the loan options that meet the disclosure requirement. You are simply required to disclose the options.
- Once the disclosure is signed, you have met the safe harbor requirement regardless of where you send the loan.
- If you regularly work with less than 3 creditors, you are only required to give options from the creditors with whom you regularly do business, even if it is only one creditor (CMC).
- On CMC funded loans where Borrower Paid Origination is chosen as the selected means of compensation, CMC will require [Broker Certification for Borrower Paid Origination](#). This disclosure is not signed by borrower. It is executed by an authorized representative from your institution and the loan originator.

Good Faith Estimate:

- [GFE Examples](#) have been provided to illustrate how to correctly disclose Lender Paid and Borrower Paid transactions funded by CMC.
- **Items a loan originator should consider when preparing a Good Faith Estimate under new Fed Rule when CMC is Funding:**
 - What is the Compensation Agreement with CMC at time of loan registration?
 - Will compensation on this transaction be paid by CMC (LPO) or Borrower (BPO)
 - If BPO – will I receive any compensation directly tied to this loan? If Yes, I need to structure as LPO.
 - Have all applicable Loan Level Pricing Adjustments (LLPA) been considered before quoting rate to consumer?
 - If I have established a “minimum” compensation level as part of my LPO agreement with CMC does the pricing net my “minimum”. If no, the “minimum” and CMC lender fees should be disclosed in box one of GFE.
 - **Will this loan pass my state and federal high cost tests?**

Good Faith Estimate:

LPO transaction resulting in a borrower credit towards third party fees:

- On LPO transactions, when a loan is locked and the resulting net price is **ABOVE PAR**, this will be a YSP credit from CMC to borrower to pay bona fide third party fees at closing. In the example below CMC is paying broker 1.5% Lender Paid Origination and

the net price after adjustments is 100.900 therefore, CMC will pay broker 1.5% and credit Borrower .90% of loan amount towards third party fees at closing.

- On a \$200,000 loan amount – here is how the pricing will look, how the GFE will be disclosed, and how this translates to HUD-1 Settlement Statement:

Pricing Preview

Base	5.250%	102.550	0.000%
Adjustments	0.000%	-1.650	0.000%
Rule 4976: If Total Loan Amount => 200,000, then point adjustment = +0.10.	0.000%	0.100	0.000%
Rule 6089: If credit score >= 740 and LTV > 75 & <= 97, then point adjustment = -0.25. pt	0.000%	-0.250	0.000%
LO Comp Credit	0.000%	-1.500	0.000%
Net Price	5.250%	100.900	0.000%

GFE Preview

Understanding

LPO: Box 1 includes lender paid LO comp and CMC fees

LPO: Box 2 = Net locked pricing + Lender Comp agreement percentage

Your Adjusted Origination Charges		
1. Our origination charge This charge is for getting this loan for you.	\$ 3,695.00	1.5% LO comp (\$3000) + CMC \$695 admin
2. Your credit or charge (points) for the specific interest rate chosen <input type="checkbox"/> The credit or charge for the interest rate of [] % is included in "Our origination charge." (See item 1 above.) <input checked="" type="checkbox"/> You receive a credit of \$ [4,800.00] for this interest rate of [5.250] %. This credit reduces your settlement charges. <input type="checkbox"/> You pay a charge of \$ [] for this interest rate of [] %. This charge (points) increases your total settlement charges. The tradeoff table on page 3 shows that you can change your total settlement charges by choosing a different interest rate for this loan.	\$ -4,800.00	Net locked pricing 100.900 + LO comp 1.5% = 102.400 (\$4800)
A Your Adjusted Origination Charges	\$ -1,105.00	

HUD Preview

Page 1

Adjustments for items unpaid by seller	
210. City/town taxes	to
211. County taxes	to
212. Assessments	to
213.	
214.	* Description will show here the detail of how the credit is being applied to the HUD charges to document compliance with LPO and Dual Compensation
215.	
216.	COMPENSATION TO BROKER PD POC BY LENDER \$3000
217.	CMC ADMIN FEE PD POC \$695
218.	
219.	
220. Total Paid by/for Borrower	200,000.00

Page 2

800. Items Payable in Connection with Loan			
801.	Our origination Charge	\$ 3,695.00	(from GFE #1)
802.	Your credit or charge (points) for the specific interest rate chosen	\$ -4,800.00	(from GFE #2)
803.	Your Adjusted origination charges		(from GFE A) -1,105.00

Good Faith Estimate:

LPO transaction resulting in a borrower credit towards third party fees:

- On LPO transactions, when a loan is locked and the resulting net price is **BELOW PAR**, this will be a discount collected at closing, from borrower to CMC.
- On a \$200,000 loan amount – here is how the pricing will look, how the GFE will be disclosed, and how this translates to HUD-1 Settlement Statement:

Pricing Preview

Base	5.000%	101.350	0.000%
Adjustments	0.000%	-1.650	0.000%
Rule 4976: If Total Loan Amount => 200,000, then point adjustment = +0.10.	0.000%	0.100	0.000%
Rule 6089: If credit score >= 740 and LTV > 75 & <= 97, then point adjustment = -0.25. pt	0.000%	-0.250	0.000%
LO Comp Credit	0.000%	-1.500	0.000%
Net Price	5.000%	99.700	0.000%

GFE Preview

Understanding

LPO: Box 1 includes lender paid LO comp and CMC fees

LPO: Box 2 = Net locked pricing + Lender Comp agreement percentage

Your Adjusted Origination Charges

Our origination charge This charge is for getting this loan for you.	\$ 3,695.00	
2. Your credit or charge (points) for the specific interest rate chosen		
<input type="checkbox"/> The credit or charge for the interest rate of [] % is included in "Our origination charge." (See item 1 above.)		
<input checked="" type="checkbox"/> You receive a credit of \$ 2,400.00 for this interest rate of 5.000 %. This credit reduces your settlement charges.	\$ -2,400.00	<div style="border: 1px solid black; padding: 2px; font-size: small;">1.5% LO comp (\$3000) + CMC \$695 admin</div> <div style="border: 1px solid black; padding: 2px; font-size: small; margin-top: 5px;">Net locked pricing 99.700 + LO comp 1.5% = 101.200 (\$2400)</div>
<input type="checkbox"/> You pay a charge of \$ [] for this interest rate of [] %. This charge (points) increases your total settlement charges.		
The tradeoff table on page 3 shows that you can change your total settlement charges by choosing a different interest rate for this loan.		
A Your Adjusted Origination Charges	\$ 1,295.00	

HUD Preview

Page 1

Adjustments for items unpaid by seller	
210. City/town taxes	to
211. County taxes	to
212. Assessments	to
213.	
214.	* Description will show here the detail of how the credit is being applied to the HUD charges to document compliance with LPO and Dual Compensation
215.	
216.	COMPENSATION TO BROKER PD POC BY LENDER \$3000
217.	CMC ADMIN FEE PD POC \$695
218.	
219.	
220. Total Paid by/for Borrower	200,000.00

Page 2

800. Items Payable in Connection with Loan			
801.	Our origination Charge	\$ 3,695.00	(from GFE #1)
802.	Your credit or charge (points) for the specific interest rate chosen	\$ -2,400.00	(from GFE #2)
803.	Your Adjusted origination charges		(from GFE A) 1,295.00

Lender Paid Compensation Highlights

- The amount of compensation paid to institution by CMC cannot vary based on loan terms and conditions or any proxy used for those loan terms or conditions. (Loan amount, rate, product type, transaction type, credit score, LTV, etc...)
- On LPO transactions, institution or originator CANNOT credit any portion of its compensation to borrower or to third party fee's.
- Compensation CANNOT be reduced for ANY reason including
 - Meeting competition
 - Rate lock extension
 - APR/ TIL/ GFE tolerance violation
- NO compensation can be paid to originator or institution by anyone other than CMC (creditor)
- Contact your CMC Account Executive should you want to change your CMC LPO Compensation Agreement amount.

Borrower Paid Compensation Demystified (sort of...)

Fed staff confirmed their position regarding loan originator compensation by mortgage brokers in consumer-paid transactions. Specifically, the staff has not changed their view that if a consumer pays a mortgage broker in a transaction, the broker cannot pay its loan originator employee who worked on the transaction any amount other than a standard salary or hourly wage that is not tied to the transaction. Basically if you are a loan officer and your paycheck will be different based on if the loan closes or not, you don't meet the FED guidance for being able to offer BPO.

So, how can mortgage loan originators whose compensation will differ based on if that loan closes or not offer a "Borrower Paid" option? Quite simply, ***you can't.***

Fed staff suggested that the issue could be resolved by the consumer paying points to the creditor from which the creditor could pay the broker entity. In this case, the broker would be paid by the lender (LPO Transaction) and could compensate its employees in accordance with their compensation plans without violating dual compensation provisions of the rule.

Essentially the FED is saying that how a commissioned Loan Officer can offer Borrower Paid Origination is by offering a LPO transaction where the net price is below par, and a discount is paid to the creditor by the borrower. *See GFE Examples of LPO with a resulting net price below par.*

So if you are commissioned and want to offer a BPO option, just offer a LPO option instead. Thanks for clearing that up, Fed!

Who can legitimately offer a BPO transaction where you can generate less or more income that your LPO agreement with CMC?

- Straight Hourly or Straight Salary loan officers.
- Broker Owners.

For the purposes of submitting loans to CMC, you will ALWAYS choose Lender Paid Origination unless you meet these criteria.

Anyone submitting a Borrower Paid Origination transaction will be required to submit the [Broker Certification for Borrower Paid Origination](#) disclosure at the time of loan submission.

Links to important documents on TILA / FED Rule / Loan Officer Compensation provided exclusively by Crescent Mortgage Company

[Crescent Mortgage April 1, 2011 Loan Officer Compensation Guidance](#)
[Fed Rule – Loan Officer Compensation Customer Question and Answer](#)
[Lender Paid Compensation Agreement.](#)

[GFE Examples](#)

[Administrative Fee Changes](#)

[Broker Certification for Borrower Paid Origination](#)

[Anti Steering with loan option grid disclosure.](#) [Word Version](#)

[Anti Steering borrower assertion disclosure.](#) [Word Version](#)

Please contact your Crescent Mortgage Company Account Executive with any questions or training needs that you may have.

Fowler Williams, CMB

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