

TPO Compensation Policy Overview

4-28-2011

Federal Reserve Board Ruling

Amendment to Regulation Z

Loan Originator Compensation & Anti Steering Rules

Effective April 6, 2011

Summary

Effective with all loan applications received and accepted ("*Registered*" or "*Submitted*") by PMC BanCorp (PMC) on or after April 6, 2011, amendments to Regulation Z related to loan originator compensation and anti-steering provisions become effective.

Scope

This amendment to Regulation Z applies to all mortgage loan originators, not just the mortgage broker. All individuals that originate closed-end loans secured by a consumers dwelling will be held to the new compensation standards.

Loan Originator Defined

- Organizational Loan Originators – Under the new rule, any organization that brokers a loan is deemed a loan originator for the purposes of the restricted compensation and anti-steering provisions of Reg. Z. ****Note**** Under 226.36 (d) (3) affiliates are treated as one entity, thus affiliates of organizational originators are considered part of the loan originator organization under the restricted compensation section of this rule.
- Individual Loan Originators – employees of creditors and brokers who for compensation or in expectation of compensation or other monetary gain, arrange, negotiate, or otherwise obtain an extension of consumer credit for another person.
- On all brokered or table funded loans there will be at least two originators (*the organization and the individual*) unless the broker is a sole proprietor and the proprietor acts as the individual originator.

Compensation Changes

The new rule prohibits the mortgage loan originator from:

- Receiving compensation from both the consumer and lender or other person/entity on any given transaction
- Steering a consumer towards any specific loan transaction based on mortgage originator compensation
- Receiving compensation based on the interest rate, product, or any other loan term or condition, with the exception of loan amount

Mortgage origination compensation will be paid by one of two options. The loan originator and consumer will choose between a Lender-Paid and a Consumer-Paid compensation models on a loan-by-loan basis.

Compensation Models

Lender-Paid Compensation - Example

30 Year Fixed		
Rate	12 Day	25 Day
5.875	(1.625)	(1.50)
5.750	(1.375)	(1.25)
5.625	(0.875)	(0.750)
5.500	0.000	0.125
5.375	0.750	1.000
Lender-Paid Compensation = 2.50 %		

- By selecting a rate of 5.75 locked for 12 days, the borrower would receive a premium credit of 1.375 or \$1375 for a \$100,000 loan amount. This credit can be applied to third-party fees.
- In this example, PMC would compensate the broker 2.50% of the loan amount or \$2500
- The amount of compensation paid to the broker will not vary based on loan terms and conditions or any proxy of those loan terms and conditions.
- Under the Lender-Paid model, brokers will not be permitted to credit any portion of their compensation to the borrower. All third-party costs must be paid by the borrower in cash, financed into the loan amount, or via a credit premium pricing based on the interest rate chosen.
- All loan feature and product price adjustments will be applied to the borrower premium credit.
- The level of compensation paid by the lender will remain constant for a defined period of time. Brokers will have the opportunity to modify compensation agreements on a periodic basis.
- Under this model, the broker must not collect any fees or compensation directly from the borrower. This includes processing fees, application fees, or any other fee retained by the originator organization or any amount received by the individual loan originator from the consumer.
- Broker owners must ensure that any compensation paid to individual loan originators is compliant with regulatory restrictions.
- Premium pricing will not be permitted to exceed third party closing costs and prepaid items. Any excess amounts require a reduction in interest rate or will be maintained by Creditor (PMC).

Consumer-Paid Compensation-Example

Rate	30 Year Fixed	
	12 Day	25 Day
5.875	(4.125)	(4.000)
5.750	(3.875)	(3.750)
5.625	(3.375)	(3.250)
5.500	(2.500)	(2.375)
5.375	(1.750)	(1.500)

- In this scenario, at a rate of 5.75% locked for 12 days, the borrower would receive a premium of (3.875) or \$3875 on a \$100,000 loan. The credit could be applied to third-party costs only.
- All loan feature and product price adjustments will be applied to the borrower premium credit.
- The broker will negotiate with the borrower to determine the amount of compensation that will be paid. No compensation will be paid to the broker from PMC.
- The borrower must pay the broker in cash or by financing the amount into the loan principal. The premium credit given to the borrower based on the interest rate selected may not be used to pay the broker compensation.
- The amount of compensation may vary on a loan by loan basis, but it must remain within PMC's responsible lending parameters. *(PMC does not fund High Cost loans)*
- A broker may give a credit to the consumer to cover third-party costs under this model.
- Broker owners must ensure that any compensation paid to individual loan originators is compliant with regulatory restrictions.
- Premium pricing will not be permitted to exceed third party closing costs and prepaid items. Any excess amounts require a reduction in interest rate or will be maintained by Creditor *(PMC)*.

Brokers with Multiple Branches

Only one Lender Paid Compensation Certification (*Plan*) is acceptable per individual Licensed Broker. Individual Brokers with multiple branches may only have one plan per Licensed Broker/Brokerage. Brokers with branches in multiple States may have one plan per State.

Switching Models

Brokers have the option to change compensation models at any time throughout the process providing it does not violate RESPA.

Anti-Steering and Safe Harbor

In addition, anti-steering regulations prohibit the mortgage loan originator from steering a consumer towards a specific loan product based on receiving greater compensation. The regulation provides a safe harbor for the loan originator if the conditions below are met.

- The consumer must be presented with loan options for each type of transaction the consumer expresses interest in.
- The loan options must be obtained from lenders the loan originator regularly does business with.
- The loan options must include:
 - The loan with the lowest interest rate
 - The loan with the lowest total dollar amount for origination points or fees and discount points
 - The lowest rate with no risky features, such as prepayment penalty, negative amortization, or a balloon payment in the first seven years.

Mortgage brokers must present at least three options to the borrower. There is no need to present loan options from multiple lenders if the borrower only qualifies at one lender or if one lender's products are the lowest in all categories.

PMC requires an "Addendum to Broker Agreement Anti-Steering/Safe Harbor Disclosure Rules Compliance Certification" be on file with PMC before loan documents can be drawn.

Compensation Policy Requirements from Brokers

The PMC LENDER PAID COMPENSATION CERTIFICATION and **Addendum to Broker Agreement Anti-Steering/Safe Harbor Disclosure Rules Compliance Certification** require brokers to represent and warrant compliance with this amended regulation. PMC, may, at any time require documentation to evidence their compensation policies to Broker's Loan Originators. The Broker's compensation policy must include and explain the following in detail:

1. Brokers compensation for its producing branch managers
2. Brokers compensation for its individual loan originators
3. Guidelines for record retention

Certification Form

A LENDER PAID COMPENSATION CERTIFICATION form has been included as a part of this policy. This form must be completed and signed by the broker of record or authorized signor and returned to PMC no later than **April 8, 2011**. The window to submit any changes commences on the 25th day of the current month and closes on the last day of the month. Changes will be effective the first day of the following month. Brokers may select compensation levels ranging from 0.50% to 3.00% in increments of eighths (.125). **The Lender Paid compensation will be paid pursuant to the Compensation Certification in effect at time of receipt and acceptance of Borrower application by PMC**

Looking Forward

As we evaluate and finalize our new compensation models and pricing options for you and your consumers; we will be communicating these choices and assist you in clarifying our policy and answering any questions.

LENDER PAID COMPENSATION CERTIFICATION

BROKER CONTACT INFORMATION		
BUSINESS NAME	PMC BROKER ID#	PMC A/E
BROKER CONTACT NAME	TITLE	
PHONE	E-MAIL	

Brokers may select a Compensation Level on a Monthly Basis. If no change is received by PMC, the prior period Compensation Level will automatically renew until further changes are requested.

Compensation Level changes are allowed, but must be submitted between the 25th and last day of the month, and will take effect on the first day of the following month. **The Lender Paid compensation will be paid pursuant to the Compensation Certification in effect at time of receipt and acceptance of Borrower application by PMC.**

The initial Compensation Certification Form must be submitted in writing, by submitting this completed form. Subsequent changes to Compensation Levels and Periods may be submitted using this form, or via the PMC BanCorp Website [www.pmcmtg.com].

COMPENSATION PLAN SELECTION

CHECK A BOX

BASE COMPENSATION LEVEL (CONVENTIONAL)

LEVEL	% OF LOAN AMOUNT	<input checked="" type="checkbox"/>	LEVEL	% OF LOAN AMOUNT	<input checked="" type="checkbox"/>	LEVEL	% OF LOAN AMOUNT	<input checked="" type="checkbox"/>
A	0.500%		H	1.375%		O	2.250%	
B	0.625%		I	1.500%		P	2.375%	
C	0.750%		J	1.625%		Q	2.500%	
D	0.875%		K	1.750%		R	2.625%	
E	1.000%		L	1.875%		S	2.750%	
F	1.125%		M	2.000%		T	2.875%	
G	1.250%		N	2.125%		U	3.000%	

Please complete the section below by writing in your selected compensation as a total percentage.

BASE COMPENSATION LEVEL:

The authorized signor indicates, by his/her signature, that this Compensation Plan request or Compensation Plan change is approved for the Broker Firm, and further certifies, represents, and warrants that the Submitted Plan and the Brokerage Firm's Individual Loan Originator Employee Compensation Plan are in compliance with the Federal Reserve Board's final rule as published in 12 CFR Part 226 of Regulation Z and Broker and all Licensed Loan Originators are in full compliance with Consumer Paid Transactions and Anti-Steering as also published in 12 CFR Part 226 of Regulation Z.

AUTHORIZED SIGNATURE

Date

PRINTED NAME

TITLE

Please e-mail your completed form to brokerdesk@pmcmtg.com or Fax to: 626-316-7320



ADDENDUM TO BROKER AGREEMENT

Anti-Steering/Safe Harbor Disclosure Rules Compliance and Certification

This Addendum is hereby incorporated into and made part of the Broker Agreement (“Agreement”) between PMC Bancorp (“PMC”) and

_____ (“Broker”).

In addition to the representations and warranties contained in the Agreement, Broker further represents and warrants that all loans submitted comply with the anti-steering prohibitions found in Section 226.36 (e) of Regulation Z of TILA (“Rule”).

By signing below, Broker certifies the compliance with the following:

- The borrower will be presented with loan options for each type of transaction in which the borrower expresses an interest (i.e. fixed rate loan, adjustable loan, or a reverse mortgage).
- The loan options will include the following:
 - The lowest interest rate for which the borrower qualifies;
 - The lowest interest rate for which the borrower qualifies for a loan with no risky features, such as negative amortization, a prepayment penalty, interest only payments, a balloon payment in the first seven years, demand feature, shared equity or shared appreciation; and
 - The lowest total dollar amount for origination points or fees and discount points
- Broker will present loan options from a significant number (3 or more) of creditors Broker usually does business with.

Broker further certifies the following:

- Broker will present an anti-steering/safe harbor disclosure to all applicants for their acknowledgment for all loans submitted to PMC to comply with the Rule.
- Broker has established its own policies and procedures regarding loan originator compensation that complies with the Rule.

Broker acknowledges that PMC may from time to time audit Broker’s records of anti-steering/safe harbor disclosures for each loans submitted by Broker to PMC.

Broker Name

Broker ID

Signature of Broker of Record

Date

Print Name