American Association of Residential Mortgage Regulators

Creative Loan Originator Compensation

Sentry Advisors
Financial Services Risk Management

Compliance
Communication
Collaboration
Critical Thinking
Client Service

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Education Services
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Agenda

- Loan Originator Compensation
  - Introduction
    - Coverage
    - Key definitions
    - LO Compensation
      - Defined
      - Permitted practices
      - Restrictions
    - Diving into Details
    - Disguise or Simply Creative

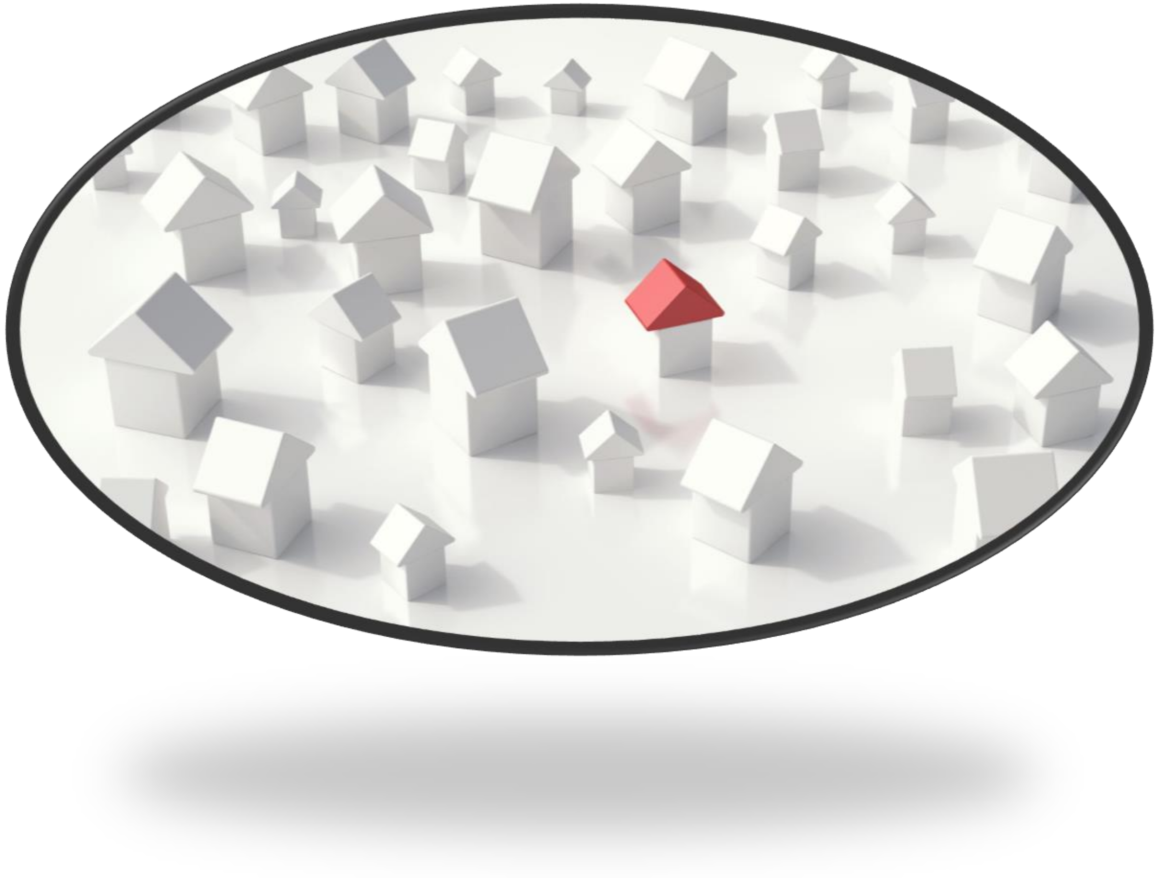
Introduction

Loan Originator Compensation Rule: Key Points

- How compensation is paid to a loan originator in most closed-end mortgage transactions
- Imposes qualification and identification requirements on loan originators
- Prohibits certain terms in mortgage agreements
- Requires written policies and procedures to monitor compliance with rule

Covered Transactions

- Consumer
- Closed-end
- Secured by A dwelling
  - Not just principal dwelling
- Types
  - First or subordinate lien
  - Reverse mortgage
- Does **not** include
  - HELOCs
  - Timeshares



Key Definitions

- **Individual loan originator**
  - A natural person who meets the definition of loan originator
  - Does not include consumers who obtain extensions of consumer credit on their own behalf
- **Loan originator organization**
  - A loan originator other than a natural person, including any legal person or organization such as a sole proprietorship, trust, partnership, limited liability partnership, limited partnership, limited liability company, corporation, bank, thrift, finance company, or credit union
- **Mortgage broker**
  - For purposes of LO compensation rules, a mortgage broker with respect to a particular transaction is any loan originator that is not an employee of the creditor
  - " includes companies that engage in the activities described in § 1026.36(a) and also includes employees of such companies that engage in these activities. Section 1026.36(d) prohibits certain payments to a loan originator. These prohibitions apply to payments made to all loan originators, including payments made to mortgage brokers, and payments made by a company acting as a mortgage broker to its employees who are loan originators.
- **Creditor**
  - A person that closes a loan in its own name (but another person provides the funds for the transaction at consummation and receives an immediate assignment of the note, loan contract, or other evidence of the debt obligation) is deemed a loan originator, not a creditor, for purposes of § 1026.36.
  - However, that person is still a creditor for all other purposes of Regulation Z

LO Activities

- Filling out a consumer application
  - Whether in person or taking info over the phone to complete the application
- Advising on specific loan terms
  - Not general information about various loan product types
- Prepares loan file
- Collects or otherwise gathers information on behalf of consumer

Taking Application / Assists Consumer

- Based on info provided by the consumer:
  - Present credit terms for consumer to consider
  - Recommend or refer consumer to a particular credit product, credit, LO, lender

Offering Terms

Does not Include

- Providing an application form
- Explaining application process or how to complete application form
- Accept or receive a completed application form
- Pass application on to an LO
- General underwriting, credit approval process

Loan Originator vs. Mortgage Loan Originator

Loan Originator (12 CFR 1026.36)

LO Activities

- For compensation or gain
  - Takes an application

Or

  - Offers, arranges, assists a consumer in obtaining or applying to obtain, negotiates

Or

  - Through advertising or other means of communication represents to the public that such person can or will perform any of such activities

Mortgage Loan Originator (12 CFR 1007.102)

- For compensation or gain
  - Takes a residential mortgage loan application

And

  - Offers or negotiates terms of a residential mortgage loan

All MLOs are LOs
But not all LOs are MLOs

Loan Originators: Includes

- An employee, agent, or contractor of the creditor or loan originator organization if the employee, agent, or contractor meets the definition of a loan originator
- A creditor engages in LO activities if creditor does **<u>not</u>** finance the transaction at consummation out of the creditor's own resources, including by drawing on a bona fide warehouse line of credit or out of deposits held by the creditor
- Any creditor that satisfies the definition of loan originator but makes use of "table funding" by a third party

Loan Originators: Excludes

Administrative or clerical tasks

- **Performs purely administrative or clerical tasks** on behalf of a person who does engage in LO activities

Servicers

- Employees, agents, and contractors who **do** offer or negotiate terms for purposes of renegotiating, modifying, replacing, or subordinating principal of existing mortgages where consumers are behind in their payments, in default, or have a reasonable likelihood of **defaulting or falling behind**
  - **If a refinancing under 12 CFR 1026.20(a), LO activity subject to rules**

Brokerage/Realty services

- A person that performs **only real estate brokerage activities** and is **licensed or registered** in accordance with applicable State law
  - Unless compensated by a creditor or loan originator or by any agent of such creditor or loan originator for a covered consumer credit transaction

Bona fide third-party advisors

- Accountants, attorneys, registered financial advisors, housing counselors, or others who **do not receive compensation for engaging in LO activities**
  - Does receive compensation for actual services performed, e.g., financial or tax advice

Manufactured home retailer employee

- **Does not** take a consumer credit application, offer or negotiate credit terms, or advise a consumer on credit terms

Seller financers

- Must meet specific criteria

Loan Originators

- **Managers and administrative staff are Loan Originators if:**
  - Managers, administrative and clerical staff, and similar individuals who are employed by (or contractor or agent of) a creditor or loan originator organization and take an application, offer, arrange, assist a consumer in obtaining or applying to obtain, negotiate, or otherwise obtain or make a particular extension of credit for another person are loan originators
  - **Producing managers**
    - Managers that work for creditors or loan originator organizations sometimes engage themselves in loan origination activities
      - The definition of loan originator includes persons, including managers, who are employed by a creditor or loan originator organization and take an application, offer, arrange, assist a consumer with obtaining or applying to obtain, negotiate, or otherwise obtain or make a particular extension of credit for another person, even if such persons are also employed by the creditor or loan originator organization to perform duties that are not loan origination activities

- Excludes (**in the absence of any other activities**)
  - Application-related administrative and clerical tasks
  - Responding to consumer inquiries and providing general information
  - Loan processing
  - Underwriting, credit approval, and credit pricing

LO 2-Prong Test

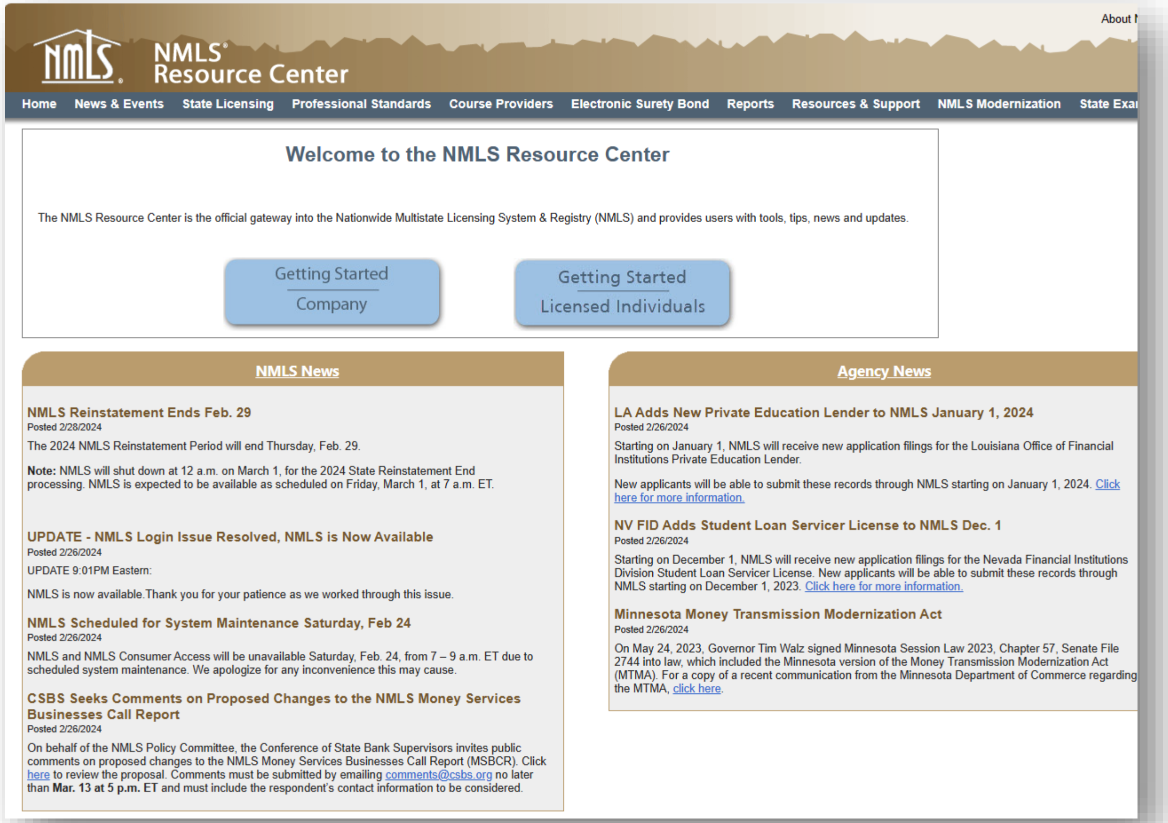
- Does the person engage in LO activity?

AND

- Does that person perform for, or in expectation of, compensation?

LO Qualification Requirements

- Individual loan originators and loan originator organizations must be registered and licensed under applicable state and federal laws
  - NMLS registration
  - NMLS ID#
- Individual LOs
  - All names used when performing LO activities, including any nicknames, shortened, or abbreviated
    - Hugh Anthony Lewis, H. Anthony Lewis, Tony Lewis, etc.
- Unless meet an exception



Non-licensed LO Requirements

- No felonies in domestic or military court
  - Individual has not been convicted of, or pleaded guilty or nolo contendere to, a felony in a domestic or military court during the preceding seven-year period or, in the case of a felony involving an act of fraud, dishonesty, a breach of trust, or money laundering, at any time
    - Individual may obtain exception from federal regulator
- Character and Fitness
  - Has demonstrated financial responsibility, character, and general fitness such as to warrant a determination that the individual loan originator will operate honestly, fairly, and efficiently.
- Periodic training to cover federal and state legal requirements that apply

- **Temporary authority**
  - Individual loan originator may act as a loan originator with temporary authority
  - Loan originator organization is not required to comply with the screening and training requirements

Required Background Information and Qualification Determinations

Hired on or after 1/1/14	Hired before 1/1/14 and no qualification screening at time of hire	Hired before 1/1/14 and screened using standards at time of hire	Hired anytime and you have *reliable* information that makes it *likely* a loan originator does not meet standards
Required: Employer must obtain criminal background check, credit report, and findings information (from NMLSR or individual if not registered) required by the rule. Conduct *initial* screening to make qualification determinations required by the rule.	**Required:** Employer must obtain criminal background check, credit report, and findings information (from NMLSR or individual if not registered) required by the rule. Conduct *initial* screening to make qualification determinations required by the rule.	**Not Required:** No additional action required unless you have *reliable* information that makes it *likely* that the loan originator does not meet standards set by the rule (*see* column 4).	**Required:** Employer must collect required information and perform subsequent screening to determine whether the rule's qualification standards are met. Applies regardless of when employee was hired or previously screened.

- Summarizes the different background information and qualification determinations a **loan originator organization is required to complete** under § 1026.36(f)(3)(i) and (ii) **applicable to employers** for **loan originator employees** that are
  - **Not required** to be licensed under the SAFE Act

  and

  - **Not licensed** based on when the employee was hired

Loan Originator Compensation

Loan Originator Compensation

- No loan originator may receive (and no person shall pay an LO), directly or indirectly, compensation in an amount based on a term of a transaction or proxy thereof
- Includes:
  - **Salaries, commissions, and any financial or similar incentive**
    - Regardless of whether labeled as payment for services that are not loan origination activities
  - Annual or other periodic **bonus**
  - Awards of **merchandise, services, trips, or similar** prizes
  - Amounts LO retains and **is not dependent on the label or name of any fee imposed** in connection with the transaction (*a rose by any other name*)
    - For example, if a loan originator imposes a "processing fee" in connection with the transaction and retains such fee, it is compensation whether the originator expends the time to process the consumer's application or uses the fee for other expenses, such as overhead

LO Comp Excludes

- Bona fide and reasonable third-party charges
  - Not the creditor, its affiliate, or the affiliate of the loan originator
- Amounts for charges for services that are not loan origination activities
- A payment received by a loan originator organization for bona fide and reasonable charges for services it performs that are not loan origination activities
- A payment received by an affiliate of a loan originator organization for bona fide and reasonable charges for services it performs that are not loan origination activities
- Amounts that exceed the actual charge for a service
  - The difference retained by the loan originator organization is not compensation if the charge imposed on the consumer or collected from a person other than the consumer was bona fide and reasonable and also complies with State and other applicable law
  - **HOWEVER …if the loan originator organization marks up the charge (a practice known as "upcharging"), and the originator retains the difference between the actual charge and the marked-up charge, the amount retained is compensation**
- Returns on equity interests and dividends on equity holdings
  - Returns or dividends are permitted, not the actual aware of stocks, equity, etc.
- Employee of a retailer of manufactured homes provided does not perform LO activities
  - Similar to administrative staff

LO Compensation

- **Excludes**
  - Compensation into a designated tax-advantaged plan or a benefit under a defined benefit plan that isa designated tax-advantaged plan
    - If a defined contribution plan, contribution shall not be directly or indirectly based on the terms of that individual LO's transactions
  - Examples
    - 401k and other IRS defined retirement plans
    - Employee annuity plan

LO Compensation: Bonuses

- Non-deferred profits-based compensation plan
  - Any arrangement for the payment of non-deferred compensation that is determined with reference to the **profits of the person from mortgage-related business**, *provided that*:
    - Not directly or indirectly based on the terms of that individual LO's transactions; **and**
    - **At least one** of the following conditions are met:
      - Compensation paid to an individual LO does not, in the aggregate, exceed 10% of his/her total compensation corresponding to the time period for which the compensation under the non-deferred profits-based compensation plan is paid; **or**
      - Individual LO was an LO for 10 or fewer covered transactions during the 12-month period preceding the date of compensation is determined

What are **Profits**?

- Include all revenue generated from closed-end consumer credit transactions secured by dwellings originated by the institution or its affiliates
  - Interest
  - Origination fees
  - Servicing fees
  - Proceeds earned from secondary market sales

LO Compensation Restrictions

- Loan originators **may not receive** compensation:
  - Based on a **term of a transaction**
    - Exception: Payments based on a fixed percentage of loan amount
- No steering consumer to a transaction that will result in greater LO compensation
  - Steering
    - Directing, advising, counseling, or otherwise influencing a consumer to accept a particular transaction
  - Safe harbor
    - LO presents to consumer loan options for which LO has good faith belief consumer likely qualifies
    - 12 CFR 1026.36(e)
  - Exception: In consumer's interest
    - Note: **Abusive**
      - *Takes unreasonable advantage of the reasonable reliance by the consumer on a covered person to **act in the interests of the consumer***

LO Compensation Restrictions

- **Different compensation based on <u>product type</u>**
  - Brokered vs. in-house

    "Examiners determined that the institutions used a compensation plan that allowed a loan originator who originated both brokered-out and in-house loans to receive a different level of compensation for the brokered out loans versus in-house loans. By compensating differently for loan product types that were <u>not offered in-house</u>, the entities violated Regulation Z by basing compensation on the terms of a transaction."

Consumer Financial Protection Bureau

SUPERVISORY HIGHLIGHTS, ISSUE 30 – (SUMMER 2023)

2.8 Mortgage Origination

The CFPB assessed mortgage origination operations of several supervised institutions for compliance with applicable Federal consumer financial laws including Regulation Z.

2.8.1 Loan originator compensation: Differentiations based on product type

Regulation Z generally prohibits compensating mortgage loan originators in an amount that is based on the terms of a transaction.[43] It defines a term of a transaction as "any right or obligation of the parties to a credit transaction."[44] And it provides that a determination of whether compensation is "based on" a term of a transaction is made based on objective facts and circumstances indicating that compensation would have been different if a transaction term had been different[45]. Accordingly, in the preamble to the CFPB's 2013 Loan Originator Final Rule, the CFPB clarified that it is "not permissible to differentiate compensation based on credit product type, since products are simply a bundle of particular terms."[46]

As part of their business model, institutions brokered-out certain mortgage products not offered in-house. For example, the institutions used outside lenders for reverse mortgage originations, but had their own in-house cash-out refinance mortgage product. Examiners determined that the institutions used a compensation plan that allowed a loan originator who originated both brokered-out and in-house loans to receive a different level of compensation for the brokered-out loans versus in-house loans. By compensating differently for loan product types that were not offered in-house, the entities violated Regulation Z by basing compensation on the terms of a transaction. In response to these findings, the entities have since revised their loan originator compensation plans to comply with Regulation Z.

Confusing?

- No steering consumer to a transaction that will result in greater LO compensation, unless in consumer's interest

One approach that the CFPB has approved in the past is designating certain loan originators to only manage brokered loans and other loan originators to only manage funded loans

LO Compensation Restrictions

- Pricing concessions
  - LO may reduce compensation to **defray the cost, in whole or in part, of an unforeseen settlement cost not disclosed to the consumer under RESPA, or an unforeseen increase** in an actual settlement cost over an estimated settlement cost disclosed to the consumer
    - An increase is unforeseen if the increase occurs despite the best information reasonably available to the disclosing person
    - Does not cover "oops, forgot to include"

LO Compensation Restrictions

- No Dual Compensation
  - Loan originators that receive compensation directly from consumers in a covered transaction may not receive additional compensation, directly or indirectly, from any other person in connection with that transaction
  - Includes compensation received from a third party to the transaction to pay for some or all of the consumer's costs
- Further, a person is prohibited from compensating a loan originator when that person "knows or has reason to know" that the consumer has paid compensation to the loan originator (12 CFR 1026.36(d)(2)(i)(A)(2)).
- However, even if a loan originator organization receives compensation directly from a consumer, the organization can compensate the individual loan originator, subject to 12 CFR 1026.36(d)(1) (12 CFR 1026.36(d)(2)(i)(C)).

Diving into Details

LO Compensation - Refresh

- No loan originator shall receive, and no person shall pay to a loan originator, directly or indirectly, compensation in an amount that is based on
  - A term of a transaction,
  - The terms of multiple transactions by an individual loan originator, or
  - The terms of multiple transactions by multiple individual loan originators
- If a loan originator's compensation is based in whole or in part on a factor that is a proxy for a term of a transaction, the LO comp is based on a term of a transaction
  - A factor that is not itself a term of a transaction is a proxy for a term of the transaction if the factor consistently varies with that term over a significant number of transactions,

  and

  - The loan originator has the ability, directly or indirectly, to add, drop, or change the factor in originating the transaction

LO Compensation

- **"Term"**
  - **Any right or obligation of the parties to a credit transaction**
    - The amount of credit extended is not a term of a transaction or a proxy for a term of a transaction, provided that compensation received by or paid to a loan originator, directly or indirectly, is
      - Based on a fixed percentage of the amount of credit extended
      - Such compensation may be subject to a minimum or maximum dollar amount

- **Includes, but not limited to**
  - Interest rate
  - APR
  - LTV
  - Prepayment penalty included
  - Closing costs/origination fees
  - Collateral type

- **"Based on"** a term of a transaction
  - **Does not require** a comparison of multiple transactions or proof that any person **subjectively intended** that there be a relationship between the amount of the compensation paid and a transaction term
  - Determination based on the **objective facts and circumstances** indicating that compensation would have been different if a transaction term had been different
    - Generally, when there is a **compensation policy** in place and the objective facts and circumstances indicate the **policy was followed**, the determination of whether compensation would have been different if a transaction term had been different is made by analysis of the policy
    - **In absence of a compensation policy, or when a compensation policy is not followed**, determination may be made based on a comparison of transactions **originated and the amounts of compensation paid**

Permitted LO Compensation

- LO Comp **not** based on a loan term
  - LO's overall loan volume
    - Total dollar amount of credit extended
    - Total number of loans originated, delivered to the creditor
  - Long-term performance of LO's loans
    - Cannot ding LO for current loan or retroactively on a prior transaction
    - Can re-evaluate comp plan for loans going forward
      - If last quarter (Q1) under-performed, next quarter (Q2) pay 5% instead of 10% on loans made in Q2
      - Q1 was outstanding performance, percentage increased for Q2
        - » Permitted even if Q2 interest rates are higher
  - Hourly pay for actual number of hours worked
  - Whether consumer is an existing customer or new

Permitted LO Compensation

- LO Comp **not** based on a loan term
  - Payment amount fixed in advance for every loan LO arranges
    - For example
      - » LO receives $600 for every loan arranged for the creditor
      - » $1,000 for the first 1,000 loans arranged and $500 for each additional loan thereafter
  - Cannot vary with the amount of credit extended
    - For example
      - » 1% of loan amount for loans of $300,000 or more
      - » 2% of loan amount for loans between $200,000 - $300,000
      - » 3% of loan amount for loans less than $200,000
  - Percentage of applications LO submitted to the creditor that resulted in consummation
  - Quality of LO's loan files
    - For example
      - Accuracy and completeness of loan files
      - Numerous compliance errors in Q1, reduce compensation for Q2 loans
  - Legitimate business expense

Proxy for a Loan Term

- A factor that is not itself a term of a transaction is a proxy for a term of the transaction **if**
  - The factor **consistently varies** with that term over a significant number of transactions,

  AND
  - The loan originator **has ability**, directly or indirectly, to add, drop, or change the factor in originating the transaction

- If both = Yes, violation
- If either condition or both conditions = No, no violation

Examples: Proxy or Not?

From the Commentary: 12 CFR 1026.36(d)(2)

- **Proxy: Inhouse vs. Secondary Market**
  - Assume a creditor pays a loan originator a higher commission for transactions to be held by the creditor in portfolio than for transactions sold by the creditor into the secondary market
  - The creditor holds in portfolio only extensions of credit that have a fixed interest rate and a five-year term with a final balloon payment
  - The creditor sells into the secondary market all other extensions of credit, which typically have a higher fixed interest rate and a 30-year term
  - **Thus, whether an extension of credit is held in portfolio or sold into the secondary market for this creditor consistently varies with the interest rate and whether the credit has a five-year term or a 30-year term (which are terms of the transaction) over a significant number of transactions**
  - Also, **the loan originator has the ability to change the factor by, for example, advising the consumer to choose an extension of credit a five-year term**
  - Therefore, under these circumstances, whether or not an extension of credit will be held in portfolio is a proxy for a term of a transaction

- **Not a Proxy: Geography**
  - Assume a loan originator organization pays loan originators higher commissions for transactions secured by property in State A than in State B
  - For this loan originator organization, over a significant number of transactions, transactions in State B have substantially lower interest rates than transactions in State A
  - **The loan originator, however, does not have any ability to influence whether the transaction is secured by property located in State A or State B**
  - Under these circumstances, the factor that affects compensation (the location of the property) is not a proxy for a term of a transaction

LO Compensation Plans in Disguise or Simply Creative?

Disguised and Creative LO Comp Plan

- **“Employee Expense Account”**
  - Employer deposits compensation based on the profits from a loan originator’s closed loans
    - Use funds to pay quarterly bonuses
      LO may use funds for price concessions
      - Allowed LO to close loans and earn commissions that may have been lost to competitors
    - Use funds to cover costs of individual’s commissions (rate re-sets)

Calling all Loan Originators … Join my team

- **Employee Referral Program / Revenue Sharing**
  - Employee shall be eligible to receive an override on **Eligible Recruits** so long as Employee has either
    - (i) produced at least 1 closed loan that month, or
    - (ii) referred at least 2 loan officers to the Company that month.
  - Eligible Recruits shall include any loan officer that as determined in the Company's sole discretion, was originally and formally introduced to the Company by Employee.
    - First Generation Eligible Recruits must be directly referred to the Company by Employee.
    - Second Generation Eligible Recruits are Eligible Recruits of First Generation Eligible Recruits.
    - Third Generation Eligible Recruits are Eligible Recruits of Second Generation Eligible Recruits.

- MLOs on social media refer to this program by LOTS of different names
  - Employee Referral Program
  - Revenue Sharing
  - Revenue Share Program
  - Partnership Compensation Plan

Revenue Share Program – A Lucrative Opportunity Are you interested in building a business within a business? <x> Mortgage offers an enticing Revenue Share Program where you can grow your team nationwide without the management overhead. By introducing other Originators to <x>, you can earn a portion of their commissions, creating a powerful source of passive income. As you develop your downline and help others succeed, your Revenue Share can grow significantly.

Calling all Loan Originators … Join my team

- Employee Referral Program
  - Subject to all terms set forth herein, **Employee's Override shall be a percentage as set forth in Exhibit A of the Net Broker Fees received by the Company on loans originated by Employee’s Eligible Recruits in a month.**
    - The Net Broker Fee is determined by reducing the Broker Fee paid to the Company by 25 Bps.
    - The Net Broker Fee **includes fees paid to the Company by any Lender or Borrower (as applicable) as compensation for originating the loan.**
    - **Maximum compensation payout is limited to $3 million of monthly volume for any employee referral.**
  - Net Broker Fees originated through Eligible Recruits
    - For the **Net Broker Fees originated through Second Generation Eligible Recruits to count towards Employee's override**, there must be five or more Active Eligible Recruits in the First Generation.
    - For the **Net Broker Fees originated through Third Generation Eligible Recruits** to count towards Employee's override, there must be ten or more Active Eligible Recruits in the First Generation.
    - To be considered "Active" an Eligible Recruit must have closed at least one loan in the applicable month.

Revenue Sharing with Eligible Recruits

		1st Bonus Tier	100% Bonus Tier
BPS	$0 - $2.99M	$3M - $4.99M	> $5M
275	220	250	275
250	198	225	250
225	176	200	225
200	154	175	200
175	132	150	175
150	110	125	150
125	88	100	125

Partner Levels	Producing Recruits	100% Bonus Level
Jr. Partner	5	Starts @ $3M
Associate Partner	10	Starts @ $2M
Senior Partner	15	Starts @ $1M
Executive Partner*	20	Starts @ Loan 1

* Executive Partnership is for Life!

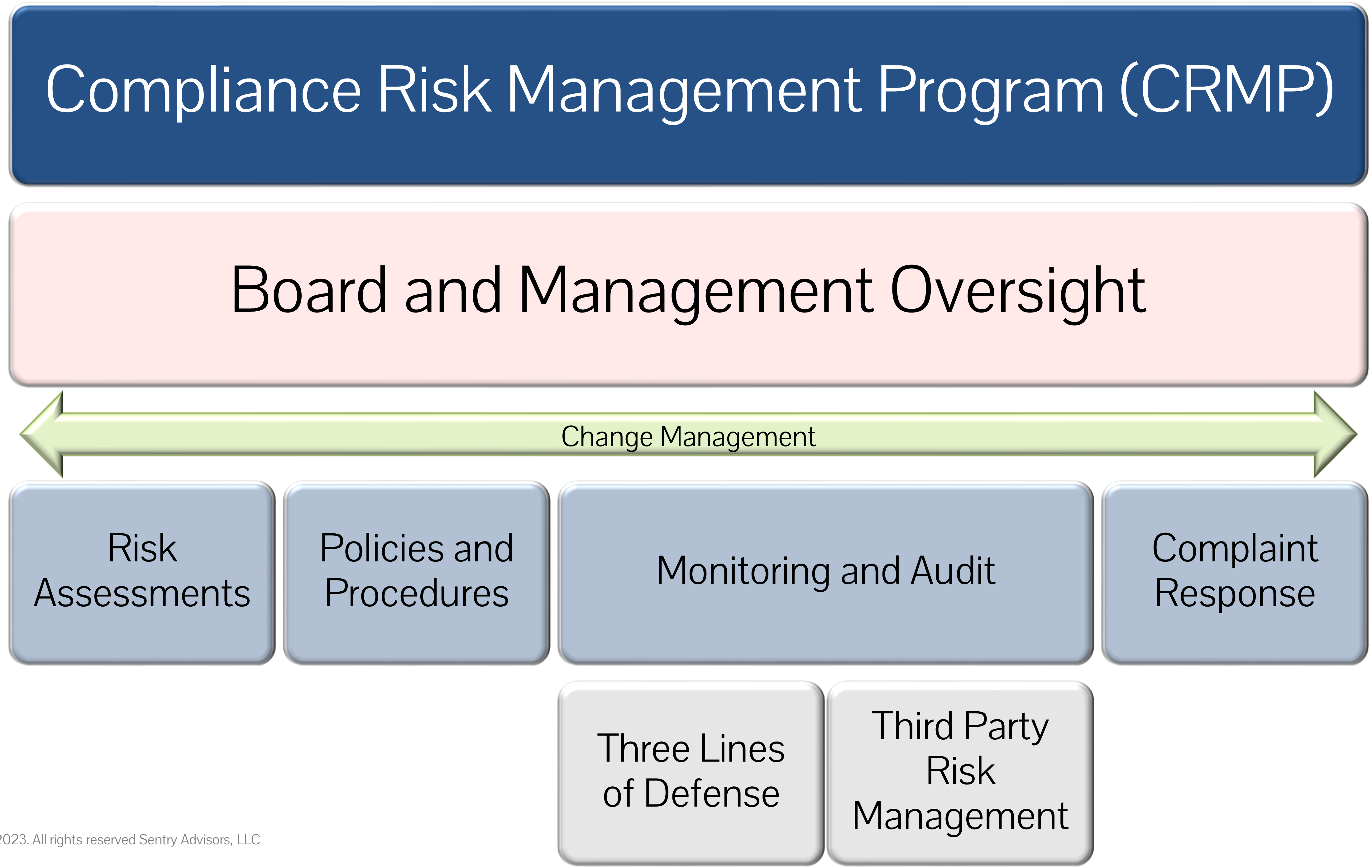
COMPENSATION WILL NOT BE BEAT

- Highest paying Loan Officer Splits
- Branch Manager opportunities with a full P&L
- No out of pocket costs at all
- Retirement Revenue – Continues after you retire from NEXA
- Insurance Revenue – Your family receives your income when you cannot

Potential Recruiting Compensation Plan Issues

- Payments to MLOs are based on a term of the loan (disregard the tables, actual agreement states it is 4% of the Company Comp minus a small fee)
- Compensation is based on the terms of MULTIPLE TRANSACTIONS by Multiple MLOs
- MLO’s are sharing “pooled compensation” that COULD be based on different terms of the loan if they have differing BPS plans selected
- Payments made to MLOs are non-deferred comp, and clearly exceed the 10% bonus limit placed by the rule

Compliance Program Risk Management (CRMP)


Compliance Risk Management Program (CRMP)
Board and Management Oversight
Change Management
Risk Assessments
Policies and Procedures
Monitoring and Audit
Complaint Response
Three Lines of Defense
Third Party Risk Management

CRMP

Board and Management Oversight

- Board is ultimately responsible for organizations' compliance
- Board typically sets compensation structure
  - Should have understanding of LO Comp rules
    - Particularly prohibitions

Change Management

- Collaboration among Compliance, HR and Board/Management is essential to ensure any changes to policies, procedures, systems, etc. that may impact compensation are addressed

Risk Assessments

- Essential for front line, HR and compliance collaborate to identify compliance and operational risks

CRMP

- Regulation requires **written** policies and procedures reasonably designed to **ensure and monitor compliance** of the depository institution, its employees, and its subsidiaries and their employees with:
  - LO Comp requirements
  - Anti-steering
  - LO qualifications
  - Name and NMLSR ID on loan documents
  - Must be appropriate to the nature, size, complexity, and scope of the mortgage lending activities
- Review must be incorporated into change management process across all business lines and third-party relationships (TPRM) (as applicable)

Policies and Procedures | **Monitoring and Audit**

3LOD | TPRM

- On-boarding and ongoing training is essential
  - Lending activities do not turn into LO Comp loan activities
  - No steering
  - Compensation rules

Complaint Response

- Complaint process and categories should incorporate red flags for LO compensation
  - For example, consumer inquires or otherwise complains that LO asked for funds to be paid directly to LO instead of institution

Complaint Response

Record Retention

- Must maintain records sufficient to evidence all compensation it pays to a loan originator, and a copy of the compensation agreement that governs those payments
- Loan Originator Organization
  - Must maintain records sufficient to evidence all compensation it receives from a creditor, a consumer, or another person and that it pays to its individual loan originators, and the compensation agreements that govern those receipts or payments
  - Records are sufficient to evidence payment and receipt of compensation if they demonstrate:
    - The nature and amount of the compensation;
    - That the compensation was paid and received and by whom; and
    - When the payment and receipt of the compensation occurred
- Three Years
  - Records evidencing receipts or payments must be retained for a period of three years from the date of the receipts or payments

Questions?

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