Press Release

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Federal Reserve announces final rules to protect mortgage borrowers from unfair, abusive, or deceptive lending practices that can arise from loan originator compensation practices

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The Federal Reserve Board on Monday announced final rules to protect mortgage borrowers from unfair, abusive, or deceptive lending practices that can arise from loan originator compensation practices. The new rules apply to mortgage brokers and the companies that employ them, as well as mortgage loan officers employed by depository institutions and other lenders.

Today, lenders commonly pay loan originators more compensation if the borrower accepts an interest rate higher than the rate required by the lender (commonly referred to as a "yield spread premium"). Under the final rule, however, a loan originator may not receive compensation that is based on the interest rate or other loan terms. This will prevent loan originators from increasing their own compensation by raising the consumers' loan costs, such as by increasing the interest rate or points. Loan originators can continue to receive compensation that is based on a percentage of the loan amount, which is a common practice.

The final rule also prohibits a loan originator that receives compensation directly from the consumer from also receiving compensation from the lender or another party. In consumer testing, the Board found that consumers generally are not aware of the payments lenders make to loan originators and how those payments can affect the consumer's total loan cost. The new rule seeks to ensure that consumers who agree to pay the originator directly do not also pay the originator indirectly through a higher interest rate, thereby paying more in total compensation than they realize.

Additionally, the final rule prohibits loan originators from directing or "steering" a consumer to accept a mortgage loan that is not in the consumer's interest in order to increase the originator's compensation. The rule will preserve consumer choice by ensuring that consumers can choose from loan options that include the loan with the lowest rate and the loan with the least amount of points and origination fees, rather than the loans that maximize the originator's compensation.

The Federal Register notice containing the final rules is attached. The final rules are effective April 1, 2011.

Federal Register notice: HTML | 186 KB PDF

- Final Rules Highlights Document

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