



INTERBANK
WHOLESALE

Simply close more



REV033111JC

GFE Scenarios

Wholesale Originations

ATTENTION

This information is not intended to be legal advice to any person or entity. It is being provided as a service and the information contained herein is drawn from various public sources, including other publications. Please consult your own counsel on how these changes may affect you and your business.

We will continue to provide updated information to keep you informed.



INTERBANK

WHOLESALE

New Compensation and Anti-Steering Rules

To provide you with up-to-date information on compensation and anti-steering rules, Interbank Mortgage Company (IMC) has several updates and information on the GFE.

| Effective Date | Update |
|----------------|---|
| April 1, 2011 | Compliance with the Federal Reserve rules is required. |
| March 30, 2011 | IMC must accept the GFE on all loans submitted by March 30, 2011 to qualify under old requirements. |
| March 31, 2011 | The consumer- and lender-paid models will be required for loans submitted to IMC. |

The GFE is not changing with the new compensation and anti-steering rules.



Lender-Paid GFE

- How Interbank Mortgage Company (IMC) reviews the GFE will be different on March 31st than it is today. IMC will conduct an enhanced review of all fees represented on the initial GFE before acceptance. On a lender-paid transaction, if after review of the GFE, it is apparent that a GFE refund will be required, then IMC will not accept the GFE.



GFE Scenario 1: Lender-Paid

| | | |
|-----------------|-----------|---------------------------------|
| BLOCK 1 | \$4,000 | Lender-Paid Broker Compensation |
| | \$699 | Interbank Admin Fee |
| | \$4,699 | Block 1 Total |
| BLOCK 2 | (\$4,000) | Lender-Paid Broker Compensation |
| | (\$2,000) | Premium Rate Credit |
| | (\$6,000) | Block 2 Total |
| <u>(\$1301)</u> | | BLOCK A TOTAL |

- Block 1**
 - Broker compensation is equal to \$4,000.
 - Interbank Admin Fee \$699

- Block 2**
 - Offset of the lender-paid broker compensation is equal to \$4,000.
 - Loan is locked at a rate that pays \$2,000 premium pricing that will be applied to the borrower's closing costs.

- Block A**
 - This field shows (\$1301)
 - The borrower will be able to apply \$2,000 to closing costs, which may include the Interbank Admin Fee

GFE Scenario 2: Lender-Paid

| | | |
|----------------|------------------|---------------------------------|
| BLOCK 1 | \$4,000 | Lender-Paid Broker Compensation |
| | \$699 | Interbank Admin |
| | \$4699 | Block 1 Total |
| BLOCK 2 | (\$4,000) | Lender-Paid Broker Compensation |
| | \$2,000 | Discount for rate selected |
| | (\$2,000) | Block 2 Total |
| \$2,699 | | BLOCK A TOTAL |

- Block 1**
 - Broker compensation is equal to \$4,000.
 - Interbank Admin fee is \$699
- Block 2**
 - Offset of the lender-paid broker compensation is equal to \$4,000.
 - Loan is locked at a rate that requires the consumer to pay \$2,000 for the rate selected.
- Block A**
 - This field shows \$2699
 - This amount is not paid to the broker for compensation, but for the lender origination charges and the cost for the rate.

Consumer-Paid GFE

- ❑ GFEs for consumer-paid transactions should be prepared the same way as today where the broker is not being paid any yield spread, but is collecting an Origination or Broker fee directly from the borrower. The broker compensation on a consumer-paid transaction is only listed in Block 1 of the GFE.



GFE Scenario 3: Consumer-Paid

| | |
|-------------------------------------|---|
| BLOCK 1 | \$4,000 Consumer-Paid Broker Compensation |
| | \$699 Interbank Admin Fee |
| | \$4,699 Block 1 Total |
| BLOCK 2 | (\$2,000) Premium Rate Credit |
| | (\$2,000) Block 2 Total |
| <u>\$2,699 BLOCK A TOTAL</u> | |

- Block 1**
 - Broker compensation is equal to \$4,000.
 - Interbank Admin fee is \$699

- Block 2**
 - Loan is locked at a rate that pays \$2,000 premium pricing that will be applied to the consumer's closing costs.

- Block A**
 - This field shows \$2,699 that the consumer will need to bring to the table.
 - In actuality, the Consumer will need to bring funds to the closing table to pay the broker compensation of \$4,000.
 - The consumer will be able to apply \$2,000 to closing costs, which may include the Interbank Admin fee

Effect of Setting a Ceiling

If you have a loan amount of \$500,000 with a 1.5% compensation level and a \$4,500 maximum (ceiling):

- ❑ Your compensation amount is \$4,500, which is 0.9% of the loan amount. Therefore, you can offer pricing at a compensation level of 0.9%.
- ❑ This gives you a competitive advantage over the broker who has not set a maximum and is bound to receiving compensation at 1.5% or \$7,500.



INTERBANK

WHOLESALE

Frequently Asked Questions (FAQs)

The following section includes answers to brokers' frequently asked questions and may help you better understand the GFE and other possible scenarios.



FAQs

Question 1:

Q: *As a broker will I be able to send my Borrower-paid compensation loans & Lender-paid compensation loans to the same Lender?*

A: Yes. For example, you can send a Borrower-paid compensation loan in the morning and another loan for a different borrower that's Lender-paid later that same day.

Question 2:

Q: *What does Broker Compensation include?*

A: Compensation includes all origination charges, processing fees and any other fees retained by the loan originator or broker.



FAQs (Cont.)

Question 3:

Q: *Can I be paid more on difficult loans or for Borrower's with worse credit?*

A: This would depend on whether the Borrower chooses Lender-paid or Borrower-paid. Creditors cannot compensate you more for a more difficult loan, consumer's credit score, debt-to-income ratio or LTV with the Lender-paid option. However Borrower-paid loans will give you the ability to negotiate directly with the borrower for your chosen compensation.

Question 4:

Q: *If I have an agreement with Interbank to receive 2% compensation on a loan amount, what happens if the price is 103.25?*

A: You would receive the 2% compensation that is set with Interbank and the borrower would be credited 1.25%.



FAQs (Cont.)

Question 5:

Q. *Can a borrower still use a credit from the rate that they choose to cover their closing costs?*

A: Yes. A borrower will have a choice of multiple rates and multiple credit combinations throughout the loan process, as long as the rate and credit they choose do not affect the Loan Originator's compensation that has been set. If the borrower chooses a rate that has a credit, that credit may cover third party fees but may not cover any of the originator's compensation.

Question 6:

Q: *What is considered Loan Originator Compensation?*

A: Under the borrower-paid compensation option, all income to the broker is considered loan originator compensation. This would include the broker fee, broker origination fee, broker processing fee, and any other names fee which is income to the broker. It does not include third party fees collected by the broker to be paid to the third party settlement provider (i.e. credit report or appraisal fee).



FAQs (Cont.)

Question 7:

Q. *Under the lender-paid compensation option, can I still charge a processing fee?*

A: No. Under the lender-paid compensation option, you can only receive compensation from the lender and no other source.

Question 8:

Q. *If the borrower receives a credit for the interest rate they accept, can they use that credit to pay the broker fee or a broker processing fee under the Borrower-paid compensation option? Can they pay lender fees?*

A: Any borrower credit from the lender can only be used to pay third party closing costs and any lender fees. The borrower credit cannot be used to pay broker fee(s) or any portion thereof.



FAQs (Cont.)

Question 9:

Q. *If the borrower receives seller contributions, can they use the funds to pay the broker fee or broker processing fee?*

A: Depends on the compensation method. Seller contributions are considered “paid by the borrower”. Therefore, under the borrower-paid compensation method in which the borrower is paying the broker compensation, seller contributions may be used to pay broker fees. However, under the lender-paid compensation method, the broker can be paid by the lender and no one else. Therefore, seller contributions can only be used to pay third party closing costs and lender fees.

Question 10:

Q. *When do I have to designate whether I intend to be paid under the Borrower-paid or Lender-paid compensation program?*

A: While there is no specific time frame stated within the new regulations, you will need to determine your method of compensation prior to the issuance of the initial GFE as your elected compensation must be properly disclosed on the GFE.



FAQs (Cont.)

Question 11:

Q. *Can I change from a Borrower-paid compensation to a Lender-paid compensation, and vice versa, during the processing of the loan?*

A: During the processing and underwriting of the loan there are a number of factors that may contribute to how the final loan transaction is structured. Interbank will allow you to change your compensation method once during the processing of the loan to accommodate any unanticipated issues in the loan transaction.

Question 12:

Q. *Can I elect to increase or reduce my broker compensation during the processing of the loan?*

A: Depends on the compensation method. Under the Borrower-paid compensation method, you can never increase your compensation. You may, however, reduce your compensation at any time. Under the Lender-paid compensation method, you may not increase or decrease your compensation.



FAQs (Cont.)

Question 13:

Q. *Under the Lender-paid compensation method, how often can I change my compensation margin?*

A: You will be able to adjust your compensation margin during a two week period every 90 days. However, during the initial period, Interbank will work with you to address any unforeseen issues and may allow you to adjust your compensation margin accordingly.

Question 14:

Q. *May a broker collect an underwriting or processing fee under the Lender-paid model?*

A: No. If the broker is being compensated by Interbank, then it may not charge any fee directly to the borrower. This is true even if the broker outsources its underwriting or processing to a third party.



FAQs (Cont.)

Question 15:

Q. *Can a broker use excess premium to pay a processing fee if it is “outsourced”?*

A: No, under the Lender-paid model, the broker cannot charge any processing fee, even if it is outsourced.

Under the Borrower-paid model, yes the broker may charge a processing fee, but the Interbank premium cannot be used to pay this or any other broker fee.

Question 16:

Q. *What “defines” allowable third party fees that can be paid for by premium pricing in a Lender-paid transaction?*

A: A “third party” fee is a bona fide charge from an independent settlement service provider.

Any affiliated company listed on the broker’s Affiliated Business Arrangement Disclosure (ABAD) is not considered “third party.” Under the Lender-paid model, the borrower cannot pay the cost for a settlement service provider affiliated with the broker, neither from cash at closing nor from the loan amount.



FAQs (Cont.)

Question 17:

Q. *What about Discount points? Are they not third party?*

A: Discount points or buying the rate down would be reflective of the interest rate and associated cost to obtain that particular rate. A borrower will be able to choose the rate that best meets his or her needs from a total out of pocket expense perspective.

Question 18:

Q. *What happens when a broker forgets to disclose the owner's title insurance on the GFE? Is this handled the same way for Lender-paid and Borrower-paid methods of compensation? Does the broker still pay?*

A: Under the Lender-paid model, Interbank is responsible for all tolerance cure violations, even if the violation was caused by the broker's initial GFE; therefore deficient GFE's will be rejected.

NOTE: A broker cannot lower his compensation or provide a credit to cover the tolerance cure.

Under the Borrower-paid model, a broker may give a credit for any tolerance violations.

FAQs (Cont.)

Question 19:

Q. *Can the premium be applied towards escrow set up? For example, if the borrower has three months of escrow to put away, can it be used for that?*

A: Yes, any available premium can be utilized to establish the initial escrow account.

Question 20:

Q. *What happens if there is excess Interbank premium owed to the borrower?*

A: If there is sufficient excess premium to lower the rate, then the rate is to be lowered. If not, then this premium should be credited to the borrower as a principal curtailment.

Reminder: Under the Borrower-paid model, excess premium cannot be used to pay the broker's fees. The borrower must bring cash to the closing or include the broker's fees in the loan amount.



FAQs (Cont.)

Question 21:

Q. *As a Broker, am I able to set up different compensation agreements with different lenders?*

A: Yes, a broker can receive different amounts of compensation from different lenders. Each payment received from a specific lender must be consistent with their agreement.

Question 22:

Q. *Is it true that any “pricing” change only affects the borrower’s “premium/discount”? If the broker needs more time, a lock extension, this will affect only the borrower and not the broker? The broker in effect can’t pay for it?*

A: Yes, under the Lender-paid model the broker cannot credit or pay for any lock extension. This cost must be borne by the borrower.

However, under the Borrower-paid model the broker is able to lower her fee to cover an extension cost.

