APRIL 17, 2013

What the new Mortgage Loan Originator Compensation and Qualifications Rule means for consumers

Consumer Financial Protection Bureau

The Consumer Financial Protection Bureau is issuing a new rule to help you avoid hidden costs when you're shopping for a mortgage. The new rule requires mortgage loan originators (for example, mortgage brokers or lenders) to meet certain requirements. It bans certain compensation practices that may have increased costs for consumers.

Consumers take out only a few home loans during their lives. As a result, they often rely on loan originators to help them pick a loan. But before the financial crisis, some loan originators were paid more when consumers agreed to loans with higher rates or other unfavorable terms. In addition, the training and qualification standards for loan originators varied widely. The Dodd-Frank Wall Street Reform and Consumer Protection Act bans certain payment practices and requires originators to meet certain requirements. This rule implements the new provisions.

The Loan Originator Compensation and Qualifications Rule (LO Comp Rule) says:

- Lenders and mortgage brokerage firms generally can't pay their loan originators more for getting you to choose a loan with particular terms. For example, they can't pay their loan originators more for getting you to pick a loan with a higher interest rate or with higher upfront points or fees.
- If you're paying a mortgage broker to help you find a mortgage loan, the mortgage broker generally can't also be paid by the lender for your loan.
- Loan originators who are supposed to be licensed or registered under state or Federal law, but fail to satisfy these requirements, will be violating the LO Comp Rule. Even those who don't have to be licensed or registered will generally have to pass a background check and have training.
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- A lender can't require you to use an arbitrator instead of suing in court over mistakes or problems with your loan.
- A lender can't finance credit insurance with the mortgage loan.

The prohibitions on arbitration and financing credit insurance start on June 1, 2013, while the others parts of the LO Comp Rule start on January 10, 2014.

Getting rid of hidden fees

In the past, companies sometimes paid their loan originators more for steering consumers into mortgages with higher rates or other unfavorable features. You may not have realized that your mortgage loan originator would make more money if you agreed to a higher interest rate or other more costly loan terms.

The LO Comp Rule says companies can no longer do that. They can't tie the loan originator's pay to the interest rate of your loan. They also can't pay a loan originator for getting you to use a company they're associated with– like a particular title company.

This part of the rule starts Jan. 10, 2014.

Qualified loan originators

This rule requires loan originators to be qualified to make mortgage loans. If they are supposed to be licensed or registered under state or Federal law, but they fail to satisfy these requirements, they will be violating the rule. Employees of particular lenders, like banks or certain nonprofits, don't have to have a license from a state. This rule says these employees will generally have to pass background and reference checks. They also have to have training about how to properly make loans.

This part of the rule starts Jan. 10, 2014.

Ban on mandatory arbitration

Arbitration is a way to resolve disputes outside the court system. In an arbitration, a person called an arbitrator listens to each side and decides how to resolve the dispute. Some tools that a plaintiff might use in court may not be as available in arbitration. In addition, compared to suing in court, your ability to appeal an arbitrator's decision is much more restricted.

Parties sometimes agree to arbitrate a dispute after it has arisen. This is often called "post-dispute arbitration" because the dispute occurs first and the parties only then agree to arbitrate it. The new rule does not stop parties from using post-dispute arbitration.

“Pre-dispute arbitration” clauses, which are often called “mandatory arbitration clauses,” operate the other way around. Before any dispute occurs, a clause in the parties’ contract states that they will resolve certain types of disputes in arbitration rather than in court. The new rule generally bans lenders from including mandatory arbitration clauses in contracts for mortgage loans and home equity lines of credit.

This part of the LO rule starts June 1, 2013.

No financing for credit insurance

Credit insurance pays off all or some of your loan or suspends all or some of your loan payments if you die, become disabled, lose your job, or in other specified circumstances. If you borrow the money through your mortgage loan to pay for a credit insurance policy, your total loan amount goes up and you pay more interest. But this rule bans lenders from including the cost of credit insurance in your loan amount.

You can still buy a credit insurance policy, and either pay for it up front, or make monthly premium payments. Special rules apply to credit unemployment insurance.

This part of the rule starts June 1, 2013.

What to do if your servicer doesn't follow the rules

If you think your lender is not following following the Loan Originator Compensation and Qualifications rule, the Consumer Financial Protection Bureau wants to know. You can get in touch with us these ways:

Online: www.consumerfinance.gov/complaint

By telephone (in 187 languages)**:**

(855) 411-CFPB (2372)
Español (855) 411-CFPB (2372)
TTY/TDD (855) 729-CFPB (2372)

8 a.m. to 8 p.m. Eastern, Monday–Friday:

By mail: Consumer Financial Protection Bureau
P.O. Box 4503
Iowa City, Iowa 52244

By fax: (855) 237-2392

The Loan Originator Compensation and Qualifications rule is one of many rules that protect you when you get a mortgage. Information about these and other rules is available at http://consumerfinance.gov/regulations.

You can see answers to frequently asked questions about home mortgages at http://consumerfinance.gov/askcfpb/.