March 19, 2019

The Honorable Kathy Kraninger
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, DC

Re: Loan Originator Compensation Changes

Dear Director Kraninger:

The National Association of Mortgage Brokers (NAMB) is the oldest national trade association representing the mortgage broker industry. With members in all 50 states, NAMB promotes the industry through programs and services such as education, professional certification and government affairs representation.

We are writing concerning an October 17, 2018 letter to then Acting Director Mick Mulvaney from several mid-tier mortgage lending companies (see attached) calling for the CFPB to make changes to the loan originator compensation regulations. In the letter, the group of lender-employers suggested, in part, the following.

> -- Permit voluntary reductions by loan officers to their compensation in response to competition.
> --Allow reductions to compensation when the originator makes an error.

The October 17th letter was also discussed at a recent Industry Roundtable held at the CFPB on January 22, 2019.

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NAMB finds the suggestion to reduce the income of employees who must earn a fixed commission rate set by the government completely unacceptable, particularly when the suggestion is coming from a group of employers that do not have fixed compensation and are free to raise fees and rates at their discretion. Employee loan originators do not mind competing on price, but the employee is the one with a fixed commission on each loan while the lender-employers do not have a similar compensation cap. Lenders can make as much as the market and competition will bear. If the CFPB decides to grant the requests made in the October 17, 2018 letter, then the loan originator compensation fee caps must be changed in order for loan originators to be fairly positioned to re-allocate their commission funds in order to cover business costs.

When government imposes price controls, inefficient companies tend to target workers'/employees' pay in order for the corporation to keep more of the mortgage origination pie. Reducing lender operational costs and creating greater efficiencies are what they should be doing on their side of the equation, as opposed to reducing employees' "set- in-stone by the Federal government" compensation. It is the lender-employers that should be dropping their fees (or reducing rates to help them compete), not the other way around. Banks and lenders should be investing in and deploying new technology to become more efficient and compete in the marketplace rather than take from their employee loan originators' commission.

We believe a better approach would be to start with removing the price controls from loan originator compensation and explore new ways to prevent steering. Technology has changed since the passage of Dodd-Frank and there are third-party validation methods - pricing engines - to better detect and restrict loan originator steering. The industry should explore these options before we attack employee income.

Low-loan amount loans. You'll recall at the January 22, 2019 meeting, you mentioned the problem of fewer low-loan amount mortgages that impact lower income individuals. We discussed the issue of regulatory hurdles limiting a loan originator's income as a barrier to wanting to work with these low loan amounts. An example of this problem is most lenders' set commissions on loan amounts for their loan originators are generally in the range of 2.25% - 2.75% of the loan amount. The regulatory (Regulation Z) limits on loan originator compensation for low-loan amounts increase -- see the chart below outlining the permissible fees related to particular loan amounts – which, in theory, should work ensure the loan originator is compensated with a fee that covers the costs and effort of originating the loan. However, in practice, lenders do not adjust the loan originator compensation percentage they agree to contractually to pay their loan originators, either out of fear of litigation or because of technology costs to program their systems. Therefore, the adjusted compensation limits on low-loan amounts are irrelevant in practice since the lender/creditor, in almost all cases ,does not permit increases in payments to the loan originator for these low-loan amount loans. We find this especially ironic since in a jumbo mortgage loan scenario the lender/creditors are surprisingly able to cap mortgage loan originator compensation for these higher loan amount loans - over $484,350 and over $726,525 in high-cost areas. NAMB believes this begs an important question, namely how can mortgage loan originator compensation be capped by lenders on these jumbo loans (and likely higher income borrowers) but seemingly cannot be increased for lower cost mortgages (presumably lower income borrowers). This could be some of the reason lower loan amount loans have dropped in the past few years as you discussed at the January 22, 2019 Industry Roundtable meeting.

| Loan Amount | Max Fee |
|---|---|
| Above $105,158 | 3% |
| $105,158-$63,095 | $3,155 |
| $63,095-$21,032 | 5% |
| $21,032-$13,145 | $1,052 |
| Less Than $13,145 | 8% |

NAMB would like to discuss different potential solutions to this problem. One such solution would be to permit the consumer or creditor to pay, in addition to the loan originator's fixed lender-contracted commission, a flat payment. We also believe the CFPB should reexamine the rationale for the 3% cap on points and fees for Qualified Mortgages and either increase that amount, remove items that are double counted, or explore other ways to combat steering. We believe such a solution would help resolve the problem of fewer low-loan amount mortgages.

Respectfully,

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2018-2019 NAMB President

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