The Federal Reserve Board recently announced final rules designed to protect mortgage borrowers from unfair and deceptive practices by loan originators. The new rules target a lender compensation scheme in which loan originators receive more money if a borrower accepts an interest rate higher than the rate required by the lender. The difference in the rate the lender would require and the interest rate the loan originator "sells" to the borrower is commonly referred to as a "yield spread premium." A loan originator receives greater compensation if it places the borrower in a loan with a higher interest rate than the lender would have required. As a result, a borrower ends up with a home mortgage loan with a higher interest rate than the borrower could have received.

Under the new rules announced by the Federal Reserve, 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 a borrower's loan cost, such as by increasing the interest rate or points. The new rules also prohibit loan originators from steering borrowers to mortgage loans that are not in the borrower's best interest in order to increase the originator's compensation. The new rules are intended to ensure that borrowers can choose from loan options that include the loan with the lowest rate and the loan with the lowest amount of points and origination fees, rather than loans that maximize the originator's compensation. Loan originators will be permitted to continue receiving compensation based on a percentage of the loan amount, a common practice in the mortgage lending industry.
Federal Reserve's press release