

The Consumer Financial Protection Bureau (“CFPB”) is issuing rules to prevent mortgage lenders from steering borrowers into risky, high-cost mortgage loans. The new rules will prohibit certain incentives that loan originators previously had which led them to sell costly and risky loans to borrowers prior to the financial crisis.

Loan officers and mortgage brokers are known as mortgage loan originators and they generally present different kinds of loans to prospective borrowers depending on the consumer’s needs. In the years prior to the housing crisis, unscrupulous mortgage loan originators often led prospective buyers into risky, high-priced mortgage loans because they would generate higher compensation for themselves. The Dodd-Frank Wall Street Reform and Consumer Protection Act created the Consumer Financial Protection Bureau and charged the new agency with addressing problems in the consumer finance market that contributed to the financial crisis. The CFPB is finalizing regulations governing how loan originators may be compensated.

The new rules will do the following: (1) prohibit steering incentives by prohibiting compensation that varies with the loan terms, so a broker or loan officer does not receive greater compensation if a borrower takes out a costlier loan; (2) prohibits dual compensation whereby a loan originator would be paid both by the borrower and the creditor and thus would not necessarily look out for the borrower’s best interest; and (3) set qualification and screening standards for loan originators so that consumers can be confident that originators are both ethical and knowledgeable. The final rule also implements Dodd-Frank provisions that, for mortgage and home equity loans, generally prohibit mandatory arbitration of disputes related to mortgage loans and the practice of increasing loan amounts to cover credit insurance premiums. The rules will take effect in January 2014, except the prohibition on mandatory arbitration and on the financing of credit insurance will take effect in June 2013.

Read the new final rules regarding loan originators [here](#) or a summary of the final rules [here](#).