

Broker Compensation Guidelines — Regulation Z

Elections

Brokers must select their Lender Paid Compensation (LPC) option at the time of Broker approval. Within the first 90 days post approval the Broker has a one-time option to change their LPC election. This change may be necessary post the approval once the Broker becomes familiar with FSB's products, pricing, operating efficiencies, average loan balances, etc., where a change in the LPC election is justified. Outside of the initial 90-day period, LPC changes are restricted to a 90-day window. LPC elections may not be changed earlier than 90 days from the date of the last election. Electing or changing your Elections requires completion of the [LPC Election Form located here](#) on the TPO website and emailed to Clientapprovals@fsbmortgage.com.

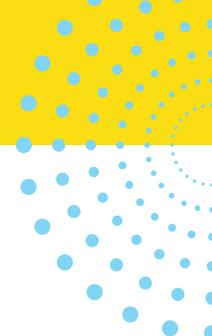
Options

- **LPC:** Broker must choose an LPC percentage that will be applied to all loans originated, without regard to any loan characteristics. The Lender Paid Compensation percentage (% of loan amount) will be applied to all loans on all FSB products and may not be greater than 2.75%.
- **Maximum Compensation:** FSB has a set maximum compensation amount for any single transaction of \$35,000. Should the compensation under the LPC percentage election be greater than \$35,000, the cap of \$35,000 will apply to that transaction.
- **Managing Maximum Compensation:** to your Benefit FSB allows Brokers to select a maximum compensation to be paid on any single loan in a dollar amount that is less than the FSB maximum of \$35,000. This is an important tool if the Broker wants to be more competitively priced on higher loan balances than their average loan balance. As an example, if the average loan balance for a Broker company is \$300,000 and the company LPC is determined to be 2.5%, generating \$7,500 in average revenue per closing, setting a maximum compensation that would allow the Broker company to be competitive on a \$500,000 loan can be accomplished by electing an amount in excess of \$7,500 that would then become the LPC for pricing any loan where the 2.5% election would normally exceed that dollar amount. In this example if the Broker elected \$10,000 as the maximum compensation amount, on that \$500,000 loan the LPC would be overridden from the 2.50% (\$12,500) down to the set maximum of \$10,000 or 2.0%.
- **Minimum Compensation:** Broker may select a minimum dollar amount of compensation. This minimum would apply for any transaction where the percentage election above generates less dollar compensation than the elected minimum dollar amount. In these cases, the minimum would apply. Caution should be used in setting a minimum, especially if the LPC election is relatively high, as the probability of a QM fail is significantly greater. Once a Minimum LPC Compensation has been elected it cannot be waived on any individual transaction and can only be changed during a valid change period and applied to all loans forward from that date.

Switching from LPC to BPC

There may be times when a Borrower may benefit from switching from LPC to Borrower Paid Compensation (BPC) after the Borrower(s) have acknowledged (accepted) a Loan Estimate from the Lender.

This change is only allowed in the circumstances outlined below:

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- a. The loan as priced fails a compliance limit, such as exceeding the QM (Qualified Mortgage) Points and Fees limit for that transaction or triggers a High Cost or HPML restriction that would cause a negative impact on the Borrower(s).

Requirements: The compliance test fail must be documented, and the Borrower(s) must acknowledge in writing that they understand they are going to be charged origination fees paid directly to the Broker that were not disclosed on the original Loan Estimate (LE) in exchange for a lower interest rate and overall lower cost to close. A change of circumstance disclosure and new LE must be prepared and sent to the Borrower(s) in accordance with the borrower requested change.

- b. The Borrower(s) are demanding a lower interest rate or reduced loan costs to keep the loan with the Broker and to lower the interest rate or fees the Broker would need to switch the transaction from LPC to BPC to lower the loan's interest rate or origination charges.

Requirements: The Broker must present to FSB a specific request from the Borrower(s) stating that to continue the transaction with the Broker the Borrower(s) will need a lower interest rate and/or lower origination costs, together with evidence of a current competitive offer in the name of the borrower(s) and subject property address, such as; current locked LE where the lock as not expired or a current lock agreement that has not expired.

The above requirements must be received by FSB in advance of processing a change. The change, once processed, will require a change of circumstance disclosure and new LE which must then meet all regulatory timing requirements. The Borrower(s) request must be received in written form and evidenced that it comes directly from the Borrower(s). Acceptable forms include an email directly from the Borrower's personal email account or an originally signed letter.

Switching from BPC to LPC

This option is not allowed under any circumstances.

Borrower Paid Compensation (BPC)

Borrower Paid Compensation is origination fees charged directly to the Borrower(s) by the Broker. These origination fees, in total dollar amount, may NOT exceed the amount the Broker would have received under their LPC election.

Important: On a BPC transaction, No amount of Lender Credit from FSB can be used to offset or pay any of the Broker's origination charges. Lender Credits may only be used to offset third party settlement charges.

Underwriting Fee Option Election and Changes – FeesOUT vs FeesIN

The Broker is given the option on each individual transaction to price and disclose the transaction with the FSB Underwriting fee paid outside of pricing (FeesOUT = Admin Fee Waiver - NO) or with the FSB Underwriting fee included in the pricing (FeesIN = Admin Fee Waiver - YES). The daily published pricing is always priced with FeesOUT with the Admin Fee collected by FSB at closing. If FeesIN is selected, the pricing will be adjusted to account for the equivalent amount of the required Underwriting fee.

Caution: Depending on your LPC election, selecting FeesOUT can cause a QM fail. For example, with an LPC election of 2.75%, and a loan amount of less than \$390,000 that transaction will likely fail QM points and fees tests under Fees-OUT. *The above example is not an exact calculation as each individual transaction is calculated on its individual characteristics including any Lender or Broker affiliate fees that may be required to be included.



Switching from FeesOUT to FeesIN

A transaction may only be switched from FeesOUT to FeesIN to resolve a QM fail. A change of circumstance disclosure and new LE must be prepared and sent to the Borrower(s) in accordance with the Borrower requested change. Switching from FeesIN to FeesOUT is not allowed by FSB.

Contract Processing Services

Unless the Processing Service is a bona fide 3rd party processing company, a processing fee would be required to be include in the QM points and fees test. As such, for LPC transactions FSB does NOT allow the collection of a processing fee by the Broker. Processing Fees may only be included if they are being charged by a bona fide 3rd party processing company. To qualify as a bona fide 3rd party processing company, the Processing Company must be (1) in the primary business of processing loans, (2) have no common ownership interest between the originating Broker and the processing company, (3) charge a fee that is commensurate with the market fee for similar services from other companies, and (4) maintain the appropriate license for that activity. The Contract Processing company must be on the FSB approved list, located [here](#) on the TPO website. Please follow this [link](#) to access the Contract Processing Questionnaire.

On BPC transactions, a Broker processing fee may be charged in addition to normal origination charges, and the aggregate must be within the QM Points and Fees limits.

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