COMPLIANCE WITH REGULATION Z

In conjunction with changes to Regulation Z, which address loan originator compensation and consumer “steering” as described below, U.S. Bank Home Mortgage MRBP Division is implementing an Annual Attestation to document all Purchase Fund Lenders’ compliance with the new requirements. **You must take action, as noted below, by April 15, 2011 to ensure continued purchase of your loans.**

**Overview of Regulation Z Changes**

The Federal Reserve Board has amended Regulation Z, the implementing regulation of the Truth in Lending Act (TILA). The new rules apply to all closed-end consumer purpose loans secured by a dwelling, and takes effect with loan applications received on or after April 1, 2011.

The new rules apply to all persons who originate loans, including mortgage brokers and the companies that employ them; mortgage loan officers employed by depository institutions and other lenders; and table fund lenders. There are three primary elements of the rule:

- In a broker transaction, the loan originator may receive compensation from the borrower or from the investor, but must not receive compensation from both.

- Payments to the loan originator cannot be based on the loan’s interest rate, terms, or conditions, other than the loan amount. Compensation based on a fixed percentage of the loan amount is permitted.

- Loan originators are prohibited from “steering” a consumer to less favorable terms in order to increase the broker’s or loan officer’s compensation. The rule provides a safe harbor for loan originators who receive compensation from a creditor that is not their employer. The safe harbor is met if the consumer is presented with loan options for each type of loan in which they have an interest and likely qualify, as follows:
  - The lowest interest rate for which the consumer qualifies
  - The lowest total dollar amount for origination points or fees (excluding third-party fees) and discount points
  - The lowest rate for which the consumer qualifies for a loan with no risky features, e.g., interest-only, negative amortization, pre-payment penalty, and other features as defined in the regulation and commentary
USBHM requires that a copy of the anti-steering loan options disclosure (sample attached), signed by the borrower(s) to acknowledge receipt, be included in the loan file submitted for purchase on any loan originated by a third party broker with an application date on or after April 1, 2011. USBHM encourages all sellers to use a loan options disclosure, as this information is helpful to borrowers on all transactions.

You are encouraged to contact your compliance and legal counsel for further guidance and more in-depth information about the rule.

Annual Attestation Requirement for Purchase Fund Lenders

As a Purchase Fund Lender, you are required to comply with all applicable laws and regulations and thus are responsible to ensure that your firm meets the requirements of Regulation Z on its effective date. Penalties for noncompliance for loan originators and creditors are significant, as is the potential for assignee liability and financial risk. As a result, USBHM will require all Purchase Fund Lenders to attest annually that they have policies and procedures in place to support the requirements of the rules. You must complete the attached Attestation form, and return by fax or email to USBHM no later than April 15, 2011 as instructed below.

Return your form to:
U.S. Bank Home Mortgage MRBP Division
Attn: Program Administration
17500 Rockside Road
Bedford, OH 44146
Fax: (866) 476-5584
Email: mrbp.helpdesk@usbank.com

Purchase of your loans may be suspended if your Attestation is not received by April 15, 2011.

Going forward, on an annual basis you will be required to provide a similar attestation.

During these times of significant change within the mortgage industry, we appreciate your continued business.

If you have any questions, please feel free to contact us at 1-800-562-5165.