

# Farm Credit Administration

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## INFORMATIONAL MEMORANDUM



April 22, 2013

To: Chief Executive Officer  
All Farm Credit System Institutions

From: Samuel R. Coleman, Director and Chief Examiner  
Office of Examination

A handwritten signature in black ink that reads 'Samuel R. Coleman'.

Subject: Final Rule on Mortgage Loan Originator Qualification and Compensation Practices under the Truth in Lending Act (Regulation Z)

The purpose of this Informational Memorandum is to provide information regarding a final rule issued by the Consumer Financial Protection Bureau (CFPB) regarding mortgage loan originator qualification and compensation practices. The rule primarily revises Regulation Z, Truth in Lending, at 12 CFR §1026.36. It implements amendments to the Truth in Lending Act (TILA) that were enacted by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). It was published in the Federal Register on February 15, 2013, at 78 FR 11280.

The rule takes effect on January 10, 2014, except that the prohibitions on mandatory arbitration and the financing of credit insurance take effect on June 1, 2013. All Farm Credit System (System) institutions should adopt appropriate procedures to ensure compliance with the rule.

The final rule contains the following key elements:

1. It prohibits loan originator compensation based on the terms of a transaction or a proxy for the terms of a transaction.
2. It prohibits dual loan originator compensation. Specifically, the loan originator may not receive compensation from both a consumer and another person in connection with the same transaction.
3. In a change from the proposed rule, it does not prohibit consumer payment of upfront points and fees. The CFPB stated, however, that it plans to consider whether regulation in this area is appropriate.
4. It requires loan originator organizations, including System institutions, to ensure that their loan originators meet specified standards and to provide appropriate training to their loan originators. In addition, it imposes requirements on loan originator

organizations with respect to criminal background checks, criminal convictions, and credit checks of loan originators. It also requires loan originators to provide their unique identifiers under the Nationwide Mortgage Licensing System and Registry on loan documents.

5. It prohibits mandatory arbitration clauses in loan documents.
6. It prohibits the financing of any premiums or fees for credit insurance in connection with a consumer credit transaction secured by a dwelling, but it allows credit insurance to be paid for on a monthly basis.
7. It revises recordkeeping requirements and makes additional clarifications to Regulation Z.

The language of the final rule, together with a summary of the rule, can be found on the CFPB's website, at [www.consumerfinance.gov](http://www.consumerfinance.gov). From the home page, go to the *Law and Regulation* section and click on *Regulations*. There you will find a list of all CFPB rules issued. When you click on the link to any rule, you will find a page that links to the text of that rule, along with a summary and other information about the rule.

The Farm Credit Administration is providing this information as a courtesy to keep you informed of issues that may affect your institution. This information should not be seen as a replacement for management's due diligence in monitoring issues that may affect your institution.

If you have any questions about this Informational Memorandum, please contact Jennifer A. Cohn, Senior Counsel, Office of General Counsel, at 703-883-4028, or by email at [cohnj@fca.gov](mailto:cohnj@fca.gov); and/or Dan Fennewald, Director, Examination Policy Division, Office of Examination, at 952-259-0432, or by email at [fennewaldd@fca.gov](mailto:fennewaldd@fca.gov).