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To: Clients and Friends

From: Regina M. Uhl

Subject: Truth-in-Lending Itemization of Amount Financed in a Transaction involving Consumer Paid Loan Originator Compensation

For an application received by a creditor on and after April 1, 2011, the creditor and the broker, if applicable, are required to comply with the compensation rules promulgated by the Board of Governors of the Federal Reserve System ("FRB") in Regulation Z §226.36(d). In a transaction in which the loan originator's compensation is paid by the consumer, under §226.36(d), **clients will need to identify the transaction as consumer paid compensation.**

Prior to April 1, 2011, a yield spread premium, rate premium, or other credit given the consumer could offset any or all prepaid finance charges. After April 1, 2011, the consumer paid compensation cannot be offset by the yield spread premium, rate premium, or other credit given the consumer. Other prepaid finance charges may still be offset by these premiums or credits. The reason for this is that if the credit offsets the consumer paid compensation, then part of the loan originator compensation is paid by a third party and part is paid by the consumer. That violates §226.36(d)(2), which requires that when the consumer pays the loan originator compensation directly, no other party may directly or indirectly compensation the loan originator.

For loans which contain consumer paid compensation, clients of Black, Mann, & Graham, L.L.P. will need to identify a loan as a consumer paid compensation transaction, and at client's option, will itemization what fees are part of the consumer paid compensation. **IF THE CLIENT DOES NOT ITEMIZE WHAT FEES ARE CONSUMER PAID COMPENSATION THEN THE DEFAULT SETTING WILL CATEGORIZE ALL OF "OUR ORIGINATION CHARGE" (LINE 801 ON THE HUD-1) AS CONSUMER PAID COMPENSATION.**

The result of identifying the consumer paid compensation, will be that the rate premium will not offset any of the consumer paid compensation (prepaid finance charge), but will offset other prepaid finance charges on the Itemization of Amount Financed.

Clients should be cognizant that this also may trigger a high cost or higher cost notice on said transactions.

If you have any questions, please contact the attorney whom you regularly work with.

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