Allied Capital Loan Officer Compensation Policies and Procedures

The Federal Reserve Board's amendments to Section 226.36 of Regulation Z, effective with all applications submitted to Lender on or after April 1, 2011, regulate changes to loan officer compensation. In order for you to have a better understanding of these changes, Allied Capital's policies and procedures are outlined below.

Regulation Z applies to all persons who originate loans, including lenders, mortgage brokers, as well as the loan officers they employ for closed end loans. This document will describe Allied's policies for compensating mortgage brokers. Broker owners must make sure that all compensation earned by their loan officers is compliant with any and all regulatory restrictions described in Regulation Z.

The rule prohibits brokers from receiving compensation from borrowers while also receiving compensation from lenders and other sources.

Allied Capital will produce two rate sheets for every broker with two Methods of Compensation. Broker and Borrowers must choose ONE of these methods, (BPC) Borrower Paid Compensation or (LPC) Lender Paid Compensation, on a Loan by Loan Basis. We will determine which method of compensation is chosen by reviewing the **"Mortgage Broker Compensation Agreement and Anti Steering Disclosure" (Attached).**

(BPC) Borrower Paid Compensation: Compensation is paid by the borrower directly, from funds at the loan closing or from loan proceeds from the equity in the home that is being refinanced. Any increase in interest rate (Premium Pricing) can be used to reduce Third Party Closing Costs but can not be used to cover compensation. Conversely any reduction in interest rate will include discount points to be paid directly to Allied. On purchase transactions, seller concessions can be used to cover the broker compensation and or Third Party Closing Costs. BPC is unrestricted as long as it is within applicable high cost, fair lending, GSE, or State tolerances. The compensation can vary on each loan, and concessions or credits can be given to lower compensation at closing. However, recent clarification from the Fed has restricted the compensation to the broker loan officer in this method to only salary/hourly pay, so unless there is reversal in this decision, many loans will follow the LPC method.

(LPC) Lender Paid Compensation): LPC is Fixed Compensation by the mortgage lender as a percentage of the loan amount subject to high cost, fair lending, GSE, or State tolerances. The Broker will not be compensated in any other manner from borrower funds, seller concessions, premium pricing, or any other party on this transaction. Premium pricing can be used to provide the borrower with a credit to reduce settlement charges; however, it can not be used to pay additional broker compensation. This compensation can not vary by loan term or condition and will be predetermined by a **"Broker Compensation Agreement" (Attached).** This agreement can change periodically due to market conditions; however, changes to the compensation level may affect the rates on future applications/locks. None of the LPC can be credited to the borrower or be adjusted in any way based on loan terms and conditions. Premium pricing can be used to cover third party closing costs, however, cannot be used for additional Broker Compensation.

Sample rate sheets for both methods (BPC & LPC) are provided below. The **LPC** rate sheet uses as an Example 2% LPC. Other options will be available, such as 1%, 2%, & 3% LPC. At this time 3% will be the maximum LPC at Allied.

BPC Method | **LPC Method (2%)**

Rate %	Borrower Credit/Discount	Rate %	Borrower Credit/Discount
5.00 %	-3.50%	5.00 %	-1.50%
4.75%	-2.375%	4.75%	-0.375%
4.50%	-2.125%	4.50%	-0.125%
4.25%	0.500%	4.25%	1.500%

Anti-Steering Requirements and Disclosure

Regulation Z and The Federal Reserve rule prohibits loan originators from "steering" a consumer to a particular loan that is not in the borrower's best interest. Borrower and Broker will sign the **"Mortgage Broker Compensation Agreement and Anti Steering Disclosure" (Attached)** to acknowledge that for each product the borrower has expressed an interest, they have been provided options that include:

1. The product with the lowest interest rate.
2. The product with the lowest dollar amount of points and origination fees.
3. The lowest rate without risky features, such as prepayment penalty, negative amortization, or balloon payment I the first seven years.

By complying with these rules, you are considered to be in compliance, and the Federal Reserve created a "Safe harbor" to protect brokers, lenders, originators, investors, and borrowers in cases of foreclosure or litigation.

These regulations have created unprecedented change in the way we serve our customers' mortgage needs. Allied Capital is committed to our broker partners and looks forward to helping you understand and comply with these regulations, remain competitive in the market, and provide the best possible service to you and your borrowers.

If you have any further questions please contact your Account Executive.

Thank you for your business.

Sincerely,

Ken Turner

President, Allied Capital (Division of Allied Mortgage Group, Inc.)