QCommission Sample Plans
Mortgage Broker Industry

Introduction

The mortgage industry is primarily involved in providing loans to consumers. This industry is made up of many parts, governmental entities such as Fannie Mae, Freddie Mac; banking and finance organizations that provide the finances for the loans; broker agencies that work with consumers and the financing organizations to complete loans; etc. This document is focused on the mortgage broker agencies and discusses the sales commission needs of these agencies.

The typical mortgage broker agency varies from 2 to 50 agents working in a local office. Most agencies are independently owned by an owner-broker and address customers in their local area. There are more than 44,000 mortgage brokerage companies in the US and they employ more than 360,000 people. Banks and other financing entities also tend to have departments focused on closing loans with borrowers. In 2003 these agencies originated more than $2.5 trillion worth of mortgages. The majority of loans processed are for residential housing. The brokerage industry plays a significant role in the mortgage lending process and American Economy by increasing competition and driving costs down.

The mortgage industry is highly regulated with federal laws, state laws, oversight by federal housing agencies and licensing requirements.

This document describes a set of sample plans that are used in the Mortgage Sample Database supplied with QCommission.

Services

The mortgage brokerage agency identifies consumers who require loans, understands their loan requirements and then works with various financing companies (aka Providers) to find the right loan that fits the customer's needs. This process of providing a loan is called a Loan Origination and the event of completing of a loan is called a Loan Closing.

The mortgage agency may have partnerships with various providers and use some of them preferentially. The mortgage agency will also receive referrals from various partners, including real estate agents, providers, etc.

Sales Commission and Incentives

The mortgage agency receives income for the loans its employees/agents close. The agency splits the income with the particular broker involved in the loan closing. Many times the split could vary based on the type of loan being closed (e.g. 60-40 for conforming loans and 50-50 for jumbo loans).

Commissions are usually based on this loan income. The loan income is made up of various components. The following are some of the components:
Origination Fees: This is basically the cost of the loan for a borrower. The borrower pays this fee for the privilege of getting a particular loan. This fee is commonly expressed as a percentage of

the loan amount. Another word for percentage is ‘Point’ and so sometimes this fee is referred to as ‘Points’.
Example: Borrower gets a loan for an amount of $500,000 at 1.5 Points. This means that the borrower will pay $7500 ($500,000 x 1.5%) as Origination fees.

Yield Spread Premium: Yield Spread Premiums (YSP) are fees paid by lenders to mortgage agency for loans carrying interest rates above a par rate -- a rate at zero fees. This rate is expressed as percentages (also described as Points). This is also known as Rebates. Conversely, on rates below the par rate, lenders charge the fees to the borrower.
Example: Lender has a loan product with a Fixed Interest rate of 5.5%. There is no YSP at this rate. If the mortgage agency sells the loan to their customer at a rate between 6.0%-7.0% then lender will pay the agency 1 points. If the rate is above 7.0% then, the lender will pay two points. So if the agency sold that particular loan product (with a value of $500,000) to a customer at 7.5%, then the agency will receive $10,000 ($500,000 x 2%).

Other Income and deductions:
The agency may have other fees it charges the borrowers. Examples include:

Courier Fees
Documentation Fees
Credit Check Fees
Appraisal Fees
Processing Fees

Typically the agent splits these additional fees with the agency, but not always. Some agencies don’t split certain fees with their agents.
Appraisal fees can show up as both income and deductions: the payment the agency makes to the appraiser is a deduction and the payment of the borrower to the agency is income.
Processing fee is a fee that the agency charges the agent for every loan. The agent may choose to pass it on to the borrower or not. They can also discount this fee to the borrower. So this fee can show up as an income and deduction as well.

Commissions can vary based on the following factors

- The Loan Size
- New Loan / Refinance
- Fixed / Floating
- Number of loans

Commissions can be paid weekly, bi-weekly, twice-monthly or monthly.

Products

Providers offer various products. These are basically different types of loans or different rates and condition for similar loans. The different types loans could be
Commercial Loans
Residential Loans

- Veterans Affairs (VA) Loans
- First Time Home Buyer (FHA) Loans
- Conforming Loans (under a certain loan amt limit set by federal agencies)
  - Fixed Interest Rate
    - New Loan

Refinance
Adjustable Interest Rate
Jumbo Loans (above the loan amt limit)

Staff

The typical mortgage agency or department has the following staff roles:
Loan Officer: This role could be either an employee or an external agent. This person is the salesperson is in charge of working with the borrower and closing the loans. They are the primary recipient of commissions from the system.
Loan Processor: This role is typically an employee. This person is in charge of completing all the paperwork related to a loan. They typically get a flat amount bonus for each loan they help process.
Manager: This role oversees a group of Loan Officers. They typically get an override commission for loans closed by their subordinates. This person may also close loans directly with the borrowers.

Transactions

Mortgage agencies pay for the following kinds of transactions.
Loan Origination
Referrals

Plans

These plans demonstrate various features of the QCommission product. Most plans are unique by sales person.

For all these plans Loan Income is calculated with the following formula:
Origination Fees + Yield Spread + Documentation Fees + Other Fees - Processing Fees

Processing Fee is at a standard rate of $495 for every loan.

Loan Officer Plan 01

This is the simplest and most straightforward plan. This loan officer has a single commission incentive.

Loan Income Commission:

This incentive is paid twice-monthly. The loan officer is eligible to get payment for Loan Origination of any type of loan. For every eligible Loan Origination, the broker gets 60% of the loan income.

Loan Officer Plan 02

This loan officer has a twice-monthly commission incentive. The commission percent varies based on the type of loan being closed. In addition there is a special loan volume bonus that is paid out monthly.

Loan Income Commission:

This incentive is paid twice-monthly. The loan officer is eligible to get payment for any Loan Origination. For every eligible Loan Origination, the Broker gets 50% of the Loan Income; this is the default rate. For specific loan types there are different commission rates.

VA loans	-	40%
FHA Loans	-	45%
Conventional loans	-	50%
Jumbo Loan	-	60%
Refinance Loans	-	40%

Loan Volume Bonus:

This incentive is paid monthly. If the Loan officer closes loans worth a total loan amount of more than $1 Million in the month, then a bonus of 25 basis points on the total loan amount is paid.

Loan Officer Plan 03

This loan officer has a twice-monthly commission incentive. The commission percent varies based on the total Loan Volume in that period.

Loan Income Commission:

This incentive is paid twice-monthly. The loan officer is eligible to get payment for any type of Loan Origination. In every period, based on the total Loan Volume for the period, the commission rate varies. Commission rate is applied against Loan Income.

Period Total Loan Volume		Commission Rate
Below 400,000	-	40%
400,001 – 600,000	-	45%
600,001 and above	-	60%

Loan Processor Plan 04

The loan processor is largely compensated by salary. The processor gets a bonus for every loan processed. Their payments paid out once a month.

Loan Processing Bonus

For every loan processed in the period, the processor gets $100.

Sales Mgr Plan 05

Managers can also close loans and get a commission for those loans. In addition managers get overrides for loans closed by their subordinate loan officers.

Loan Income Commission:

This incentive is paid twice-monthly. The Manager is eligible to get payment for Loan Origination of any type of loan. For every eligible Loan Origination originated by the Manager, that person gets 60% of the loan income.

Sales Volume Override Commission

This incentive is paid twice-monthly. This incentive is based on Loan Originations from this manager's subordinates. The manager is eligible for Loan Originations associated with any provider (Banks/Lending Institutions). Commissions are paid for each individual transaction.

This incentive helps drive business towards certain providers.

The commission rate depends on the provider and is applied against the Loan Volume. The following matrix describes the commission rate.

BANK/FINANCIAL INSTITUTION	Basis Points
Wells Fargo	25
Washington Mutual	10
America Lending	25

Referral Plan 06

The company pays out referral incentives for loans that are referred to the company. Referrals are paid for external sources such as Real Estate Agencies. These payments are paid out once a month.

Referral Incentive

For every loan processed in the period, the referrer gets $50.