

LENDERS UPDATE™

ALT & ASSOCIATES NEWSLETTER

A COMPLIMENTARY SERVICE TO THE MORTGAGE LENDING INDUSTRY

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FEDERAL RESERVE BOARD TAKES ON DISCOUNT POINTS

The Federal Reserve Board on Tuesday issued a Consent Order against **Peoples Bank** for deceptive residential mortgage origination practices. The bank told borrowers that they were paying discount points to lower their interest rates. Many times this did not occur. **Peoples** will pay about \$2.8 million in restitution to these borrowers. The restitution is based on a refund to borrowers of discount points paid but for which they received no reduction in rates.

The bank did not have a written policy regarding discount points or often follow any policy at all. The FRB stated *“Many borrowers who paid discount points did not actually receive a reduced interest rate that was not reduced commensurate*

with the price paid for the discount points. Therefore, many borrowers did not receive a benefit, or the full benefit, associated with paying discounts points.”

What the Order teaches us is:

- ✚ Lenders must have policies related to discount points, rather than follow an ad hoc approach.

- ✚ Further, mortgage files should document how the points brought the rate down. It is clear from the Order that the initial rate must be disclosed in the file to show the resulting discount. A rate sheet would be helpful.

The entire Order may be found at:

<https://www.federalreserve.gov/newsevents/pressreleases/enforcement20171128a.htm>.

ABOUT ALT & ASSOCIATES

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Alt & Associates publishes the *Lenders Update* via e-mail as a complimentary service to our friends and clients in the financial industry throughout California and the United States. Over the past three decades, members of the firm have represented Institutional Lenders and Mortgage Bankers and Brokers in all aspects of their business operations. Legal counsel provided to the mortgage industry includes, but is not limited to:

- **Regulatory assistance, both state and federal**
- **Compliance issues**
- **Operational advice**
- **Transactional issues**
- **Preparation or review of agreements such as Loan Officer Compensation contracts etc.**
- **Litigation**

You may direct any questions or comments directly to:

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