March 1st, 2019

RE: Commission Earned Policy

In 2018 we experience a dramatic increase in volume of early payoffs, so we need to begin implementing our commission earned policy or recapture of commission effective March 1, 2019. For 99.8% of the time this policy will not affect you.

What is the Commission Earned Policy?

The commission earned policy is when the commission paid on the loan is not earned until the recapture period on the loan has passed. Loans where an early payoff has occurred the commission paid will need to be repaid back or recaptured.

What is an Early Payoff (EPO)?

An early payoff is when a borrower completely pays off their loan within a certain period of time after having closed it (typically prior to 6 payments made to the investor). The investor to whom we sold the loan to will look to recover the money they paid us when we sold the loan if the loan does prepay in this time period (known as a premium recapture).

When does this recapture of commission occur?

Commission recapture occurs when VanDyk is required to pay back all the revenue and/or fees earned to an investor due to an early payoff.

How much does an EPO cost VanDyk?

Per our agreements with all of our secondary market investors, it is full repayment of the premium received plus an admin fee. The admin fee ranges between $2,000-8,000. The average EPO costs the company $10,000.

What if a borrower puts a large principal payment towards their loan? Does this count as an EPO?

No. As long as the loan is not paid in full during the first payments to an investor, there is no recapture.

Where do we see Early Payoff Occur?

Typically, we see an early payoff occur with those applicants who have their present home paid off or have a deep equity. Their present home typically is “For Sale” or they indicate their intent to sell it after they close on our mortgage.

How to avoid recapture?

1. If you know the applicant will be paying off the loan shortly after close, don't take the application. This is a lot of work and expense and nobody gets paid if the loan is paid off during the recapture period. (typically, the first 6 to 9 months)
2. Look at a 1st/2nd combo loan, this allows the borrower to payoff the second to lower their monthly obligations and better leverage their assets into other investments.
3. Purchase Money HELOC – advise the client to take out a HELOC (Home Equity Line of Credit) – this is a short-term loan with much less closing costs and is intended to be paid off earlier than later.
4. Recasting – A recast is where a borrower makes a large principal payment (greater than $10,000 but less than the loan balance) and their principal and interest payment is re-amortized based on the new balance. This is only permitted on conventional, fixed rate loans and is dependent on the investor's guidelines.

A borrower contacted me after closing and told me they want to pay their loan off. What do I do?

Secondary can advise to the exact date and scheduled payment when the loan can be paid off with no penalty.

Example 1

Borrowers first payment is due 1/1. Loan is transferred to Wells Fargo with the first payment due to Well Fargo being 1/1. VanDyk does not take any payments from the borrower.

The loan can be paid off in full after the borrower makes their 6/1 payment with no penalty.

Example 2

Borrowers first payment is due 1/1. Loan is transferred to Wells Fargo with the first payment due to Well Fargo being 2/1. VanDyk takes the 1/1 payment.

The loan can be paid off in full after the borrower makes their 7/1 payment with no penalty.