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Amid Slump, Loan-Officer Compensation Gets Second Look

American Banker | June 6, 2008

An Article Written By Kate Berry

Terry Wakefield, the chief executive of the Grafton, Wis., mortgage consulting firm Wakefield Co., said historically there has been “absolutely no ramification” for originators “if they produced lousy loans.” Over the next year he expects an “inevitable migration” by federally regulated banks, mortgage banks, and brokerages to a model that compensates sales staff members for performance over time, though he said commission structures are likely to vary.

Typically bank loan officers receive a commission equal to 1% of the loan amount, Mr. Wakefield said. Brokerages and correspondent lenders are paid 1% to 2%, which is split between the company and the salesperson.

Mr. Wakefield said he expects the new model to pay roughly half of a commission when a loan closes. About a quarter would be paid six months later, and the rest on the one-year anniversary of the closing, as long as the loan did not default.

“It's very natural that mortgage originators move toward an insurance-type model of paying commissions over time,” he said. “If a policy performs, the premiums keep getting paid, and so does the agent.”

Mr. Wakefield said brokerages “won't have much choice” but to make the same types of changes as federally regulated banks.

“It's very clear that the compensation structure of the past has failed,” he said. “Loans originated through brokers cost the originator more money.”

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