

1 ANTHONY ALEXIS, DC Bar #384545  
2 (Phone: 202-435-7999)  
3 (Email: anthony.alexis@cfpb.gov)  
4 JEFFREY PAUL EHRLICH, FL Bar #51561  
5 (Phone: 202-435-7598)  
6 (Email: jeff.ehrlich@cfpb.gov)  
7 NATALIE R. WILLIAMS, NY Bar #2422590  
8 (Phone: 212-328-7017)  
9 (Email: natalie.williams@cfpb.gov)  
10 THOMAS G. WARD, IL Bar #6291011  
11 (Phone: 312-610-8966)  
12 (Email: thomas.ward@cfpb.gov)  
13 LAWRENCE D. BROWN, TX Bar #24040586  
14 (Phone: 202-435-7116)  
15 (Email: lawrence.brown@cfpb.gov)  
16 Consumer Financial Protection Bureau  
17 1700 G Street NW  
18 Washington, DC 20552  
19 Fax: (202) 435-7722

20 Attorneys for Plaintiff  
21 Consumer Financial Protection Bureau

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24 UNITED STATES DISTRICT COURT  
25 NORTHERN DISTRICT OF CALIFORNIA

26 Consumer Financial Protection Bureau,

27 Case No. 4:15-cv-02475

28 Plaintiff,

Plaintiff,  
v.  
COMPLAINT FOR PERMANENT  
INJUNCTION AND OTHER  
RELIEF

RPM Mortgage, Inc. and Erwin Robert  
Hirt, individually,

Defendants.

The Consumer Financial Protection Bureau files this Complaint against RPM  
Mortgage, Inc. and Erwin Robert Hirt (collectively, “Defendants”) and alleges as follows:

## Introduction

1. In September 2010, the Federal Reserve Board announced a rule that prohibited the compensation of loan officers based on a term or condition of a mortgage loan, including the interest rate. This rule (the “Compensation Rule”) also outlawed “point-bank” schemes – tracking systems that permit loan officers to “bank” profits on one loan to supplement their compensation on future ones.

2. In April 2011, RPM implemented a compensation plan that gave loan officers a financial incentive to steer customers into higher-rate loans by paying them, in part, based on the interest rates of the loans they closed. Loans with higher rates created more profits for RPM.

3. But RPM disguised this interest-rate-based compensation by funneling it through so-called employee-expense accounts. RPM deposited profits from an officer's closed loans – profits that were a direct product of the loans' interest rates – into the loan officer's employee-expense account, and then used it to pay her bonuses and increased commissions. RPM also allowed loan officers to use their employee-expense accounts to offset interest-rate reductions or credits for RESPA-tolerance cures or appraisal costs they sometimes granted to avoid losing loans to a competitor.

4. Because this compensation came from funds that were based on the interest rates of the loans, RPM's compensation plan violated both the Compensation Rule and § 1036 of the Consumer Financial Protection Act of 2010 ("CFPA").

**Jurisdiction and Venue**

5. This Court has subject-matter jurisdiction over this action because it is  
brought under “Federal consumer financial law,” 12 U.S.C. § 5565(a)(1), presents a  
federal question, 28 U.S.C. § 1331, and is brought by an agency of the United States, 28  
U.S.C. § 1345.

6. Venue is proper in this district because a substantial part of the events or  
omissions giving rise to the claims occurred here, RPM’s principal place of business is  
located here, and Defendants reside here. 28 U.S.C. §1391(b); 12 U.S.C. § 5564(f).

**Parties**

7. The Bureau is an independent agency of the United States created by the  
CFPA. It has independent litigating authority, including the authority to enforce the  
Compensation Rule and the CFPA and to secure appropriate relief for violations of those  
provisions.12 U.S.C. §§ 5564(a)-(b), 5565.

8. RPM Mortgage, Inc., a California corporation, maintains its principal place  
of business at 3240 Stone Valley Road West, Alamo, California. As a significant part of  
its business, RPM offers and provides mortgage loans to consumers primarily for  
personal, family, or household purposes. Those activities are “consumer financial  
services or products” under the CFPA. 12 U.S.C. § 5481(5)(A), (15)(A)(i). RPM is  
therefore a “covered person” under the CFPA. 12 U.S.C. § 5481(6).

9. Erwin Robert Hirt is RPM’s CEO and one of its two shareholders and  
directors. Hirt is a licensed real-estate broker in California, and his Nationwide Mortgage

Licensing System and Registry unique identifier is 4756. At all times material to this Complaint, Hirt has exercised managerial responsibility for RPM and has materially participated in the conduct of its affairs. Hirt is therefore a “related person.” 12 U.S.C. § 5481(25)(C)(i)-(ii). Because Mr. Hirt is a “related person,” he is deemed a “covered person” under the CFPA. 12 U.S.C. § 5481(25)(B).

### **Factual Background**

10. RPM is a residential-mortgage lender that offers and provides loan products, including conventional fixed loans, adjustable-rate loans, Federal Housing Act loans, and United States Department of Agriculture loans, to consumers seeking to purchase or refinance residential homes. Each of these loans is secured by the dwelling for which the mortgage loan was provided.

11. RPM currently operates about 60 branches in 6 states. From 2011 through 2013, RPM operated in 18 states and originated tens of thousands of mortgage loans worth billions of dollars.

12. RPM’s branches employ loan officers who work directly with borrowers. RPM pays its loan officers to assist borrowers with obtaining and arranging credit to be secured by a dwelling. Borrowers do not directly compensate RPM’s loan officers for the loan-origination services they provide.

13. RPM’s loan officers take the initial loan applications, assess the borrowers’ creditworthiness, and determine the interest rates to offer borrowers for particular loan products.

14. RPM offers loan products at a variety of interest rates, and each interest rate is connected to a specific cash rebate or profit that RPM earns from selling the loan on the secondary market. RPM regularly sells the loans it originates on the secondary market.

15. RPM informs its loan officers that higher-interest-rate loans will result in higher secondary-market prices, translating into higher profits for RPM.

16. Before the Compensation Rule became effective, RPM paid its loan officers a “commission split,” that is, a pre-determined percentage of the rebate or profit generated on a closed loan.

17. A loan officer received a higher commission on loans that generated higher profits to RPM. Loan officers shared in the profits generated on higher-interest-rate loans and thus had a financial incentive to steer consumers to those more expensive products.

## Employee Expense Account Plan

18. The Compensation Rule made RPM's then-existing commission structure illegal.

19. RPM, however, still wanted to encourage its loan officers to originate high-interest (and high-profit) mortgages. Soon after the Compensation Rule went into effect, RPM implemented a new compensation plan based on “employee-expense accounts.” Like the one that preceded it, this compensation plan tied the loan officers’ compensation to the interest rates of the loans they originated.

20. RPM's new compensation plan provided for (i) an upfront commission based either on a fixed percentage of the loan amount or a flat dollar amount per loan closed and (ii) compensation based on the loan's profit, including periodic bonuses, pricing concessions, and, later, supplemental commissions.

21. RPM maintained an employee-expense account for each of its loan officers. The company enabled loan officers to monitor their employee-expense-account balances.

22. For each loan closed, RPM would make a deposit into the loan officer's expense account if the revenue exceeded the sum of the branch fees (fees charged at the branch level for operating the business) and the upfront commission the loan officer earned on the loan.

23. Loan officers thus could cause greater deposits to be made into their individual expense accounts by placing consumers into higher-interest-rate loans.

## Employee Expense Accounts Fund Loan Officer Bonuses

24. A loan officer's ability to draw on funds in her employee-expense account turned on her profitability – that is, whether she had a positive balance in her expense account.

25. Each loan officer with a positive account balance was able to withdraw funds from her employee-expense account for, among other things, deferred compensation in the form of bonuses.

26. After the Compensation Rule became effective, RPM began paying loan officers periodic bonuses from the existing balances in the employee-expense accounts.

RPM initially paid the bonuses on a quarterly basis, but eventually moved to monthly payouts.

27. RPM paid bonuses only to loan officers who had funds in their employee-expense accounts. With few exceptions, a loan officer generally would not receive a bonus that exceeded the amount in her employee-expense account.

28. Indeed, for loan officers who received bonuses, the amount was strongly correlated with the balances in their individual employee-expense accounts.

29. In 2011 alone, RPM paid millions of dollars in periodic bonuses to its loan officers from their employee-expense accounts.

## Employee Expense Accounts Serve as Point Banks

30. RPM also permitted loan officers to withdraw funds from the employee-expense accounts to grant “price concessions” to consumers, including interest-rate discounts and credits for RESPA-tolerance cures and appraisal costs.

31. By granting certain consumers interest-rate discounts or other credits, loan officers were able to close and earn commissions on deals they would have otherwise lost.

32. In 2011, RPM permitted loan officers to tap funds in their employee-expense accounts to subsidize more than 1,000 interest-rate discounts, resulting in more than one million dollars in withdrawals from the employee-expense accounts.

33. From 2011 through 2013, RPM permitted loan officers to tap funds in their employee-expense accounts to subsidize more than one million dollars in credits to certain consumers for RESPA-tolerance cures or appraisal costs.

## Employee Expense Accounts Fund Commission Resets

34. Although RPM continued to use employee-expense accounts to grant pricing concessions, RPM stopped paying loan officers bonuses from employee-expense accounts at the end of 2011.

35. Starting then, RPM continued to deposit loan profits into individual employee-expense accounts, but allowed loan officers to use those funds to cover the cost of individual commission-rate resets (the Commission Resets). In this way, loan officers used the employee-expense accounts to give themselves raises on future loan transactions.

36. Typically, a significant increase in a loan officer's commission rate would render a loan unprofitable for RPM. If a loan officer's commission exceeded the total revenue the loan generated on the secondary market, the transaction would result in an "underage," or financial loss to RPM.

37. The Commission Resets did not cause RPM to lose money because the underages were covered by withdrawals from the employee-expense accounts.

38. By financing the Commission Resets with individual employee expense-account funds, RPM allowed loan officers to convert profits from earlier high-interest loans into commission income.

39. RPM encouraged loan officers to adjust commission settings to ensure that funds in their employee-expense accounts were paid out to them as commission income.

40. From 2012 through 2013, RPM's loan officers made thousands of Commission Resets that were financed with funds in their employee-expense accounts.

41. During this same period, RPM permitted its loan officers to withdraw about 55% of the existing employee expense-account balances to pay for millions of dollars in supplemental commissions and pricing-concession subsidies.

Hirt Designed, Implemented, Authorized, and Benefitted From the Unlawful Payments

42. At all times material to this Complaint, Hirt has co-owned RPM. As a co-owner, Hirt benefitted from the increased volume of high-profit loans that resulted from the employee-expense-account plan's financial incentives to loan officers.

43. At all times material to this Complaint, Hirt has served as RPM's CEO and as a member of RPM's two-person Board of Directors. RPM's Branch Operations report directly to Hirt. RPM's compliance, finance, and accounting divisions report directly to Hirt. These divisions were responsible for the tracking and payment of funds in the employee-expense accounts.

44. In 2011, Hirt served on the RPM committee that determined the monthly loan-officer bonuses to be paid out of employee-expense accounts.

45. Hirt was responsible for managing the design and implementation of RPM's employee-expense-account plan, including all unlawful compensation paid out of it.

## Count I

## *Defendants' Violations of the Compensation Rule (Bonus Payments)*

46. The Bureau realleges and incorporates by reference paragraphs 1-45.

47. The Compensation Rule provides that “[i]n connection with a consumer transaction secured by a dwelling, no loan originator shall receive and no person may pay to a loan originator, directly or indirectly, compensation in the amount that is on any of the transaction’s terms or conditions.” 12 C.F.R. § 1026.36(d)(1)(i) (revised 2014).

48. RPM and Hirt are both “persons” under the Compensation Rule. 12 C.F.R. § 1026.36(d)(1)(i) (2011) (revised 2014).

49. Each of RPM's loan officers is a "loan originator" under the Compensation Rule, 12 C.F.R. § 1026.36(a)(1)(i) (2011) (revised 2014).

50. From April 2011 through January 2012, Hirt managed the design and implementation of RPM's expense-account plan that paid RPM's loan officers periodic bonuses that were based on terms or conditions of consumer-credit transactions secured by a dwelling, in violation of 12 C.F.R. § 1026.36(d)(1)(i) (2011) (revised 2014).

51. Defendants paid 511 periodic bonuses in amounts that varied based on the terms or conditions of consumer-credit transactions secured by a dwelling.

52. Each periodic bonus payment made by Defendants to its loan officers constitutes a discrete violation of the Compensation Rule, 12 C.F.R. § 1026.36(d)(1)(i) (2011) (revised 2014).

## Count II

## *Defendants' Violations of the Compensation Rule (Pricing Concessions)*

53. The Bureau realleges and incorporates by reference paragraphs 1-45.

54. From April 2011 through December 2013, Hirt managed the design and implementation of RPM's expense-account plan that permitted RPM's loan officers to withdraw expense-account funds that were derived from the interest rates those loan officers charged consumers.

55. Those expense-account funds were used to finance pricing concessions that allowed loan officers to close and earn commissions on loans they would otherwise have lost. Therefore, the funds used for the pricing concessions were prohibited compensation in violation of 12 C.F.R. § 1026.36(d)(1)(i) (2011) (revised 2014).

56. Defendants permitted loan officers to make thousands of withdrawals from their expense accounts to support thousands of pricing concessions during this period.

57. Each loan transaction involving a pricing concession constitutes a discrete violation of the Compensation Rule, 12 C.F.R. § 1026.36(d)(1)(i) (2011) (revised 2014).

### Count III

## *Defendants' Violations of the Compensation Rule (Commission Resets)*

58. The Bureau realleges and incorporates by reference paragraphs 1-45.

59. From January 2012 through December 2013, Hirt managed the design and implementation of RPM's expense-account plan that allowed RPM's loan officers to

reset their commission rates on future loans and withdraw funds from their expense accounts to cover resulting underages.

60. Because the expense-account funds were derived from the interest rates loan officers charged on mortgage loans, the commission increase they financed constituted compensation based on loan terms and conditions.

61. In thousands of loan transactions, Defendants paid their loan officers increased commission income, a form of deferred income, in amounts that varied based on the terms or conditions of consumer-credit transactions secured by a dwelling.

62. Each loan transaction involving such supplemental commission payments via a Commission Reset constitutes a discrete violation of the Compensation Rule, 12 C.F.R. § 1026.36(d)(1)(i) (2011) (revised 2014).

## Count IV

## *Defendants' Violations of the CFPA*

63. The Bureau realleges and incorporates by reference paragraphs 1-45.

64. RPM's violations of the Compensation Rule, described in Counts I-III, constitute violations of § 1036 of the CFPA. 12 U.S.C. § 5536(a)(1)(A); 15 U.S.C. § 1607(b).

65. Because he is a “related person,” Hirt is deemed a “covered person” for purposes of the CFPA. 12 U.S.C. § 5481(25).

66. Hirt's violations of the Compensation Rule, described in Counts I-III, constitute violations of § 1036 of the CFPA. 12 U.S.C. §§ 5536(a)(1)(A); 15 U.S.C. § 1607(b).

## **Demand for Relief**

The Bureau requests that the Court:

- a. permanently enjoin Defendants from committing future violations of the Compensation Rule, 12 C.F.R. § 1026.36, the CFPA, 12 U.S.C. § 5536, and any other provision of “Federal consumer financial law,” as defined by 12 U.S.C. § 5481(14);
  - b. grant additional injunctive relief as the Court may deem just and proper;
  - c. order Defendants to pay redress to consumers harmed by their unlawful conduct;
  - d. order Defendants to disgorge all ill-gotten gains;
  - e. impose on Defendants a civil money penalty;
  - f. award costs against Defendants; and
  - g. award additional relief as the Court may determine to be just and proper.

Dated: June 4, 2015

Respectfully Submitted,

Anthony Alexis (DC Bar #384545)  
*Enforcement Director*

**Jeffrey Paul Ehrlich (FL Bar #51561)**  
*Deputy Enforcement Director*

Natalie R. Williams (NY Bar #2422590)  
*Assistant Litigation Deputy*

/s/ Thomas G. Ward

Thomas G. Ward (IL Bar #6291011)

Lawrence D. Brown (TX Bar #24040586)

1                           *Enforcement Attorneys*  
2                           Consumer Financial Protection Bureau  
3                           1700 G Street NW  
4                           Washington, DC 20552  
5                           Telephone (Ward): 312-610-8966  
6                           Telephone (Brown): 202-435-7116  
7                           Fax: 202-435-7722  
8                           e-mail: thomas.ward@cfpb.gov  
9                           e-mail: lawrence.brown@cfpb.gov

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11                           *Attorneys for Consumer Financial*  
12                           *Protection Bureau*

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