Friday, February 25, 2011

FRB: "Jumbo" Escrow Accounts - Final & Proposed Rules

On February 23, 2011, the Federal Reserve Board (FRB) issued a final rule and requested public comment on a second rule under Regulation Z to revise the escrow account requirements for certain home mortgage loans.

The revisions to the regulation, which implements the Truth in Lending Act (TILA), are being made pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The final rule implements a provision of the Dodd-Frank Act that increases the annual percentage rate (APR) threshold used to determine whether a mortgage lender is required to establish an escrow account for property taxes and insurance for first-lien, "jumbo" mortgage loans. (Jumbo loans are loans exceeding the conforming loan-size limit for purchase by Freddie Mac, as specified by the legislation.)

In July 2008, the Board issued final rules requiring creditors to establish escrow accounts for first-lien higher-priced mortgage loans (HPML). A first-lien mortgage is considered an HPML if its APR is 1.5 percentage points or more above the current average prime offer rate.

Under the final rule, the escrow requirement will apply to first-lien jumbo loans only if the loan's APR is 2.5 percentage points or more above the average prime offer rate.

The APR threshold for non-jumbo loans remains unchanged.

The final rule is effective for covered loans for which the creditor receives an application on or after April 1, 2011.

Proposals

PROPOSAL: Expanding the minimum period for mandatory escrow accounts for first-lien, higher-priced mortgage loans from one to five years, and longer under certain circumstances, such as when the loan is delinquent or in default. (The proposed rule would provide an exemption from the escrow requirement for certain creditors that operate in "rural or under served" counties, as authorized by the legislation.)

PROPOSAL: Implementing new disclosure requirements contained in the Dodd-Frank Act. Disclosures would be required at least three business days before consummation of a mortgage loan to explain, as applicable, how the escrow account works or the effects of not having an escrow account if one is not being established.

PROPOSAL: Requiring consumers to receive disclosures three days before an escrow account is closed. (The FRB is soliciting comment on the proposed rule for 60 days after publication in the Federal Register, which is expected shortly.)

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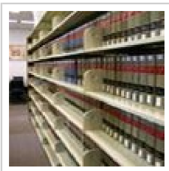

FRB: Truth in Lending, Proposed rule, Request for Public Comment
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FRB: Truth in Lending, Final rule - Official Staff Commentary
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FRB: Summary of Findings: Design and Testing of Escrow Disclosures
January 28, 2011

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