

INFOBYTES SPECIAL ALERT: CFPB FINALIZES RULE COMBINING TILA AND RESPA MORTGAGE DISCLOSURES

December 2, 2013

On November 20, 2013, the CFPB finalized its long-awaited [rule](#) combining the mortgage disclosures consumers receive under the Truth in Lending Act (“TILA”) and the Real Estate Settlement Procedures Act (“RESPA”).¹ For more than 30 years, the TILA and RESPA mortgage disclosures had been administered separately by, respectively, the Federal Reserve Board (“FRB”) and the U.S. Department of Housing and Urban Development (“HUD”). In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) transferred authority over TILA and RESPA to the Bureau and directed the Bureau to create “rules and model disclosures that combine the disclosures required under [TILA] and sections 4 and 5 of [RESPA], into a single, integrated disclosure for mortgage loan transactions covered by those laws.”² Congress did not, however, amend TILA and RESPA provisions governing timing, responsibility, and liability for the disclosures, leaving it to the Bureau to resolve the inconsistencies.

Unlike the Bureau’s other Dodd-Frank Act mortgage rules, Congress did not impose a January 2013 deadline for the TILA-RESPA Integrated Disclosure rule. Nevertheless, from the [outset](#), the Bureau made the project the public centerpiece of its rulemaking efforts, announcing its commencement in December 2010 and releasing the first prototype disclosures for public comment in conjunction with the beginning of consumer testing in [May 2011](#). Over the next twelve months, the Bureau released nine additional sets of prototype disclosures, conducted nine additional rounds of testing, and convened its first [Small Business Review Panel](#), culminating in the release of the proposed rule in [July 2012](#). Following the proposal, the Bureau conducted [additional testing](#) and developed Spanish-language and refinancing [versions](#) of the disclosures.

For additional background, please review our [report on the rule as proposed](#).

EFFECTIVE DATE AND SCOPE

The final rule generally applies to covered transactions for which the creditor or mortgage broker receives an application on or after **August 1, 2015**.³ The rule applies to most closed-end consumer mortgage loans, although it establishes different requirements for timeshares and construction loans. The rule does not apply to:

- Home equity lines of credit
- Reverse mortgages

¹ Bureau of Consumer Financial Protection, Final Rule, Integrated Mortgage Disclosures under the Real Estate Settlement Procedures Act (Regulation X) and the Truth in Lending Act (Regulation Z) (Nov. 20, 2013), <http://www.consumerfinance.gov/regulations/integrated-mortgage-disclosures-under-the-real-estate-settlement-procedures-act-regulation-x-and-the-truth-in-lending-act-regulation-z/> (publication in the Federal Register forthcoming) (hereinafter “TILA-RESPA Integrated Disclosure Rule” or “TRID Rule”). The CFPB has also released a guide summarizing the rule: http://files.consumerfinance.gov/f/201311_cfpb_tila-respa_detailed-summary.pdf.

² Dodd-Frank Act § 1032(f).

³ TRID Rule at p. 1243.

- Mortgage loans secured by a mobile home or by a dwelling that is not attached to real property⁴
- Loans made by a lender who makes five or fewer mortgages in a year⁵
- Certain no-interest second mortgage loans made for the purpose of downpayment assistance, property rehabilitation, energy efficiency, or foreclosure avoidance⁶

THE FORMS

Use of the Bureau's forms is mandatory for most transactions and only limited modifications are permitted.⁷ Despite requests from industry, the Bureau's regulation and official interpretations do not specify which disclosures are subject to TILA liability and which are subject to RESPA liability. Instead, the Bureau stated that the "detailed discussions [in the final rule's preamble] of the statutory authority for each of the integrated disclosure provisions provide sufficient guidance for industry, consumers, and the courts regarding the liability issues raised by the commenters."⁸ We will continue to study this issue.

The Loan Estimate: Truth in Lending Statement + Good Faith Estimate

The Bureau's Loan Estimate combines some of the disclosures that are currently provided in the initial Truth in Lending ("TIL") statement with the disclosures that are currently provided in the RESPA Good Faith Estimate ("GFE"). The form also incorporates other disclosures that are required by the Dodd-Frank Act or are currently provided separately, such as the Total Interest Percentage required by TILA (as amended by the Dodd-Frank Act), the appraisal notice required by the Equal Credit Opportunity Act, and the servicing notice required by RESPA.

Loan Estimate		Can this amount increase after closing?		
Loan Amount	\$211,000	NO		
Interest Rate	4%	YES	Adjusts every 3 years starting in year 6 Can go as high as 7% in year 15 See APR Table on page 2 for details.	
Monthly Principal & Interest	\$703.33	YES	Adjusts every 3 years starting in year 6 Can go as high as \$2,068 in year 15 Includes early interest and no principal until year 6 See APR Table on page 2 for details.	
Prepayment Penalty	NO	NO		
Rollover Payment	NO	NO		
Projected Payments				
Payment Calculation	Years 1-5	Years 6-8	Years 9-11	Years 12-30
Principal & Interest	\$703.33	\$1,028 min \$1,359 max	\$1,028 min \$1,004 max	\$1,028 min \$2,068 max
Mortgage Insurance	+ 106	+ 109	+ 109	—
Estimated Escrow	+ 0	+ 0	+ 0	+ 0
Estimated Total Monthly Payment	\$812	\$1,137-\$1,468	\$1,137-\$1,713	\$1,028-\$2,068
Estimated Taxes, Insurance & Assessments	\$533	This estimate includes: <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> Other See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.		
Costs at Closing	\$8,791	Includes \$5,851 in Loan Costs + \$2,940 in Other Costs - \$0 in Lender Credits. See page 2 for details.		
Estimated Cash to Close	\$27,791	Includes Closing Costs. See Calculating Cash to Close on page 2 for details.		

Closing Cost Details		Other Costs	
A. Origination Charges	\$5,710	E. Taxes and Other Government Fees	\$152
1% of Loan Amount (Points)	\$2,110	Recording Fees and Other Taxes	\$152
Application Fee	\$500	Transfer Taxes	\$500
Processing Fee	\$500		
B. Services You Cannot Shop For	\$420	F. Prepaids	\$3,332
Appraisal Fee	\$180	Homeowner's Insurance Premium (12 months)	\$1,000
Credit Report Fee	\$50	Mortgage Insurance Premium (1 month)	\$100
Flood Determination Fee	\$50	Respaid Interest (123.48 per day for 15 days @ 4.00%)	\$182
Lender's Attorney Fee	\$400	Property Taxes (1 month)	\$500
Tax Status Research Fee	\$50		
		G. Initial Escrow Payment at Closing	
		Homeowner's Insurance	per month for mo.
		Mortgage Insurance	per month for mo.
		Property Taxes	per month for mo.
		H. Other	\$1,436
		Title - Owner's Title Policy (optional)	\$1,436
C. Services You Can Shop For	\$1,801	I. TOTAL OTHER COSTS (E + F + G + H)	\$2,940
Best Inspection Fee	\$125	J. TOTAL CLOSING COSTS	\$8,791
Survey Fee	\$150	1231	\$8,791
Title - Courier Fee	\$32	Lender Credits	
Title - Lender's Title Policy	\$480		
Title - Settlement Agent Fee	\$325	Calculating Cash to Close	
Title - Title Search	\$624	Total Closing Costs (J)	\$8,791
		Closing Costs Financed/Paid from your Loan Amount	\$0
		Down Payment/Funds from Borrower	\$29,000
		Deposit	-\$19,000
		Funds for Borrower	\$0
		Seller Credits	\$0
		Adjustments and Other Credits	\$0
		Estimated Cash to Close	\$27,791
D. TOTAL LOAN COSTS (A + B + C)	\$8,881		
Adjustable Payment (AP) Table		Adjustable Interest Rate (AIR) Table	
Interest Only Payment	\$15.00 for your first 60 payments	Index + Spread	3.75% + 0%
Optional Payments?	NO	Initial Interest Rate	4%
Step Payments?	NO	Minimum Maximum Interest Rate	3.25%/7.75%
Revolving Payment?	NO	Change Frequency	Annually
First Change	Beginning of 41st month	First Change	Beginning of 41st month
Subsequent Changes	Every 36th month after first change	Limits on Interest Rate Changes	1.00% per year
First Change Amount	\$1,028 - \$1,359 per \$100 payment	First Change	2%
Subsequent Changes	Every three years	Subsequent Changes	2%
Maximum Payment	\$2,068 starting at 180th payment		

Additional Information About This Loan			
Compartments	Use these measures to compare this loan with other loans.		
In 5 Years	\$54,994 Total you will have paid in principal, interest, mortgage insurance, and loan costs. \$0 Principal you will have paid off.		
Annual Percentage Rate (APR)	4.6179% Your costs over the loan term expressed as a rate. This is not your interest rate.		
Total Interest Percentage (TIP)	81.180% The total amount of interest that you will pay over the loan term as a percentage of your loan amount.		
Other Considerations			
Appraisal	We may order an appraisal to determine the property's value and charge you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost.		
Assumption	If you sell or transfer this property to another person, we will allow, under certain conditions, this person to assume this loan on the original terms, and not allow assumption of this loan on the original terms.		
Homeowner's Insurance	This loan requires homeowner's insurance on the property, which you may obtain from a company of your choice that we find acceptable.		
Late Payment	If your payment is more than 15 days late, we will charge a late fee of 1% of the monthly principal and interest payment.		
Refinance	Refinancing this loan will depend on your future financial situation, property value, and market conditions. You may not be able to refinance this loan.		
Servicing	If you need to service your loan, if so, you will make your payments to us. We will transfer servicing of your loan.		
Certified Receipt			
By signing, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form.			
Applicant Signature	Date	Co-Applicant Signature	Date

(click to enlarge)

⁴ 12 C.F.R. § 1026.19(e)(1)(i) and (f)(1)(i). Unless otherwise noted, all citations to the Code of Federal Regulations and the commentary are to revised version adopted in the TRID Rule.

⁵ 12 C.F.R. § 1026.2(a)(17)(v). Thus, this long-standing exception in Regulation Z now applies to provision of the RESPA §§ 4 and 5 disclosures.

⁶ 12 C.F.R. § 1026.3(h).

⁷ 12 C.F.R. §§ 1026.37(o), 1026.38(t).

⁸ TRID Rule at pp. 120-21.

The Closing Disclosure: Truth in Lending Statement + HUD-1/1A Settlement Statement

The Bureau's Closing Disclosure combines the disclosures that are currently provided in the final TIL statement with the disclosures that are currently provided in the RESPA HUD-1 or HUD-1A settlement statement. Like the Loan Estimate, the form also incorporates other disclosures, including the new TILA negative amortization and escrow account notices.

Closing Disclosure		This form is a statement of final loan terms and closing costs. Compare the closing with your Loan Estimate.		
Closing Information	Transaction Information Date Closed: 4/15/2013 Closing Date: 4/15/2013 Settlement Date: 4/15/2013 Settlement Agent: Equitable Title Co. File #: 12-3456 Property: 100 Somewhere Ave, Anytown, ST 12345 Sale Price: 150,000	Loan Information Borrower: Michael Jones and Mary Stone 123 Anywhere Street Anytown, ST 12345 Lender: Ficus Bank Loan ID #: 123456789 NMLSI #: 900640123	Loan Terms Loan Amount: \$162,000 Interest Rate: 3.875% Monthly Principal & Interest: \$761.78 Prepayment Penalty: YES - As high as \$,240 per year if you pay off the loan during the first 3 years. Balloon Payment: NO	
Projected Payments	Payment Calculation: Years 1-7, Years 8-30 Principal & Interest: \$761.78 Mortgage Insurance: + 82.35 Estimated Escrow Amount (includes escrow rate): + 206.13 Estimated Total Monthly Payment: \$1,050.26	This estimate includes: (1) Property Taxes: YES (2) Homeowner's Insurance: YES (3) Other Homeowner's Association Dues: NO See Escrow Account on page 4 for details. You must pay for other property costs separately.	Estimated Total Monthly Payment: \$967.91 In escrow? NO	In escrow? YES YES NO
Costs at Closing	Closing Costs: \$9,712.10 Cash to Close: \$14,147.26	Includes \$6,048.05 in Loan Costs + \$5,018.05 in Other Costs - \$0 in Lender Credits. See page 2 for details.		

Closing Cost Details			
APPLICANT COSTS	Amount	Borrower Paid	Lender Paid
A. Origination Charges 1. Origination Fee: \$450.00 2. Application Fee: \$100.00 3. Underwriting Fee: \$1,000.00	\$1,600.00		
B. Service Borrower Did Not Shop For 1. Annual Fee: \$150.00 2. Cash Report Fee: \$100.00 3. Credit Report Fee: \$100.00 4. Flood Monitoring Fee: \$15.00 5. Tax Monitoring Fee: \$100.00	\$505.00	\$260.00	\$245.00
C. Service Borrower Did Shop For 1. Annual Fee: \$150.00 2. Cash Report Fee: \$100.00 3. Credit Report Fee: \$100.00 4. Flood Monitoring Fee: \$15.00 5. Tax Monitoring Fee: \$100.00	\$505.00	\$260.00	\$245.00
TOTAL LOAN COSTS (Borrower Paid)	\$2,610.00	\$2,610.00	
OTHER COSTS			
1. Borrower Paid 1. Title Insurance: \$800.00 2. Survey Fee: \$150.00 3. Homeowner's Insurance Premium (12 mos.): \$1,200.00 4. Homeowner's Insurance (30 days): \$150.00 5. Payoff Interest (1/17.00 per year from 4/15/13 to 5/15/13): \$70.00 6. Property Taxes (4 mos. for 4/15/13 to 7/15/13): \$200.00	\$2,520.00		\$800.00
2. Lender Paid 1. Loan Origination Fee: \$1,000.00 2. Annual Fee: \$150.00 3. Cash Report Fee: \$100.00 4. Credit Report Fee: \$100.00 5. Flood Monitoring Fee: \$15.00 6. Tax Monitoring Fee: \$100.00	\$1,565.00	\$1,565.00	
TOTAL OTHER COSTS (Borrower Paid)	\$4,085.00	\$4,085.00	
TOTAL CLOSING COSTS (Borrower Paid)	\$6,695.00	\$6,695.00	

Calculating Cash to Close			
Use this table to see what has changed from your Loan Estimate.	Loan Estimate	Final	Did It Change?
Total Closing Costs (B)	\$14,147.26	\$14,147.26	YES - See Total Loan Costs (B) and Total Other Costs (B)
Closing Costs Paid at Closing (C)	\$9,712.10	\$9,712.10	YES - See Total Loan Costs (B) and Total Other Costs (B)
Cash to Close (B minus C)	\$4,435.16	\$4,435.16	NO
Adjustments to Cash to Close	\$0.00	\$0.00	NO
Cash to Close	\$4,435.16	\$4,435.16	NO

Summaries of Transactions			
Use this table to see a summary of your transaction.	BUYER'S TRANSACTION	SELLER'S TRANSACTION	
BUYER'S TRANSACTION 1. Sale Price of Property: \$150,000.00 2. Sale Price of Any Partial Property Included in Sale: \$0.00 3. Closing Costs Paid at Closing (C): \$9,712.10 4. Adjustments: \$0.00	SELLER'S TRANSACTION 1. Sale Price of Property: \$150,000.00 2. Sale Price of Any Partial Property Included in Sale: \$0.00 3. Closing Costs Paid at Closing (C): \$9,712.10 4. Adjustments: \$0.00		
Adjustments for Items Paid by Seller in Advance		Adjustments for Items Paid by Seller in Advance	
1. City/Town Taxes: \$0.00 2. County Taxes: \$0.00 3. Assessments: \$0.00 4. HOA Dues: \$0.00		1. City/Town Taxes: \$0.00 2. County Taxes: \$0.00 3. Assessments: \$0.00 4. HOA Dues: \$0.00	
Adjustments for Items Unpaid by Seller		Adjustments for Items Unpaid by Seller	
1. City/Town Taxes: \$0.00 2. County Taxes: \$0.00 3. Assessments: \$0.00		1. City/Town Taxes: \$0.00 2. County Taxes: \$0.00 3. Assessments: \$0.00	
VALUATION		VALUATION	
Total Due from Borrower at Closing (B): \$14,147.26 Total Due From Seller at Closing (B): \$14,147.26 Cash to Close (B minus C): \$4,435.16		Total Due from Borrower at Closing (B): \$14,147.26 Total Due From Seller at Closing (B): \$14,147.26 Cash to Close (B minus C): \$4,435.16	

Additional Information About This Loan	
Assumption	If you sell or transfer this property to another person, your lender <input type="checkbox"/> will allow, under certain conditions, this person to assume this loan on the original terms. <input type="checkbox"/> will not allow assumption of this loan on the original terms.
Assured Feature	<input type="checkbox"/> has a demand feature, which permits your lender to require early repayment of the loan. You should review your note for details. <input checked="" type="checkbox"/> does not have a demand feature.
Loan Payment	If your payment is more than 15 days late, your lender will charge a fee of % of the monthly principal and interest payment. <input type="checkbox"/> are scheduled to make monthly payments that do not pay off of the interest due that month. As a result, your loan amount will increase (negatively amortized), and your loan amount will likely become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property. <input type="checkbox"/> may have monthly payments that do not pay off all of the interest due that month. If you do, your loan amount will increase (negatively amortize), and, as a result, your loan amount may become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property. <input checked="" type="checkbox"/> do not have a negative amortization feature.
Partial Payments	<input type="checkbox"/> may accept payments that are less than the full amount due (partial payments) and apply them to your loan. <input type="checkbox"/> may hold them in a separate account until you pay the rest of the payment, and then apply the full payment to your loan. <input type="checkbox"/> does not accept any partial payments. If the loan is your new lender may have a different policy.
Security Interest	You are granting a security interest in the Somewhere Ave, Anytown, ST 12345. You may lose this property if you do not make your payments or satisfy other obligations for this loan.

Loan Calculations		Other Disclosures	
Total of payments that you will have paid after you make all payments of principal, interest, mortgage insurance, and other costs, as indicated.	\$295,803.36	Appraisal	If the property was appraised for your loan, your lender is required to give you a copy of the appraisal report at least 3 days before closing. If you have not received it, please contact your lender at the address listed below.
Finance Charge. The dollar amount the lender will collect.	\$118,830.27	Contact Details	See your note and security instrument for information about: - what happens if you fail to make your payments, - what a default on the loan, - situations in which your lender can require early repayment of the loan, and - the rules for making payments before they are due.
Amount Financed. The loan amount available after paying all required finance charges.	\$162,000.00	Liability After Foreclosure	If your lender forecloses on this property and the foreclosure does not cover the amount of unpaid balance on this loan, you may be held liable for the unpaid balance. If you release or take on any additional debt on this property, you may lose the protection and have to pay any debt resulting from other transactions. You may want to consult a lawyer for more information. <input type="checkbox"/> state law does not protect you from liability for the unpaid balance.
Annual Percentage Rate (APR). Your total cost on the loan terms expressed as a rate. This is not your interest rate.	4.174%	Reference	Referencing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to reference this loan.
Total Interest Percentage (TIP). The total amount of interest that you will pay over the loan term as a percentage of your loan amount.	69.64%	Tax Deductions	If you borrow more than this property is worth, the interest on the loan amount above the property that market value is not deductible from your federal income taxes. You should consult a tax advisor for more information.
Questions? If you have questions about the loan terms or costs on this form, use the contact information below. To get more information or make a complaint, contact the Consumer Financial Protection Bureau at www.consumerfinance.gov/complaint.			

Initial Observations

The regulation and official interpretations provide extensive, highly-detailed guidance on how to fill out the Loan Estimate and Closing Disclosure.⁹ In addition to the sample Loan Estimate and Closing Disclosure (which is for an interest-only adjustable rate purchase loan), the Bureau provided samples for fixed-rate, balloon-payment, and negative amortization purchase loans and for a refinancing.¹⁰ The Bureau also provided

⁹ See 12 C.F.R. §§ 1026.37 and 1026.38 and Official Interpretations.

¹⁰ See Sample Forms H-24(B)-(F).

(click to enlarge)

two variations of page one and four variations each of pages two and three of the Loan Estimate to address the variable content requirements. Similarly, the Bureau provided multiple samples of the Closing Disclosure, including samples separating the borrower and seller information for privacy reasons.¹¹

Although our analysis of the final rule is ongoing, we make the following observations regarding the forms:

- *Itemization:* Unlike HUD's 2010 GFE, the Bureau's Loan Estimate requires the itemization of individual charges. The GFE prohibits separately disclosing the items that are consolidated in, for example, the origination charge. But the Loan Estimate mandates providing a consolidated figure on page 2 under the subheading of "Origination Charges," with an itemization of each amount that the consumer will pay to each creditor and loan originator for originating and extending the credit.¹² These separately disclosed items may include, for example, an application fee, origination fee, underwriting fee, processing fee, verification fee, and rate-lock fee.¹³ A consolidated subtotal and an itemization of individual amounts must also be provided for "Services You Cannot Shop For" and "Services You Can Shop For."¹⁴ The items listed as loan costs under these provisions generally must be labeled using terminology that describes each item and listed alphabetically.¹⁵
- *Disclosure of Discount Points:* Under the subheading "Origination Charges" on page 2 of the Loan Estimate, the points paid to the creditor to reduce the interest rate must be disclosed as a separate line item, listed as both a dollar amount and as a percentage of the amount of credit extended labeled as "__% of Loan Amount (Points)."¹⁶ A charge imposed to pay for a loan level pricing adjustment ("LLPA") assessed on the creditor, which the creditor passes on to the consumer as a charge at consummation and not as an adjustment to the interest rate, must be separately itemized.¹⁷
- *Disclosure of Broker Compensation:* One of the most significant revisions made to the GFE in 2010 was the emphasis placed on disclosing compensation paid to a mortgage broker by the lender as both a charge to the consumer and a "credit" from the lender. The Loan Estimate does not disclose creditor-paid mortgage broker compensation in the same manner. Consumer-paid broker compensation must be disclosed on the Loan Estimate as an individual line item under "Origination Charges" on page 2.¹⁸ Unlike the GFE, the CFPB does not require (and, in fact, prohibits) disclosure of creditor-paid broker compensation (e.g., compensation to a loan originator paid indirectly by the creditor through the interest rate) on the Loan Estimate.¹⁹ On the Closing Disclosure, borrower-paid and creditor-paid compensation are separately disclosed on page 2. Consumer-paid broker compensation is disclosed as a "Borrower-Paid" charge, whereas lender-paid broker compensation is disclosed as a charge in the "Paid by Others" column.²⁰

¹¹ See Sample Forms H-25(B)-(J).

¹² 12 C.F.R. § 1026.37(f)(1).

¹³ Comment 37(f)(1)-3.

¹⁴ 12 C.F.R. § 1026.37(f)(2, 3).

¹⁵ 12 C.F.R. § 1026.37(f)(5).

¹⁶ 12 C.F.R. § 1026.37(f)(1)(i).

¹⁷ Comment 37(f)(1)-5.

¹⁸ 12 C.F.R. § 1026.37(f)(1) and Official Interpretations.

¹⁹ *Id.*

²⁰ 12 C.F.R. § 1026.38(f)(1) and Official Interpretations.

- *De-emphasis of APR and Other TIL Disclosures*: Based on consumer testing performed by the FRB and the Bureau indicating that the traditional “TIL Box” disclosures of Annual Percentage Rate (“APR”), Finance Charge, Amount Financed, and Total of Payments were not helpful to consumers, the Bureau used its exception and adjustment authority to move the APR to the last page of the forms and to provide the other disclosures only on the last page of the Closing Disclosure. While these changes were supported by industry, consumer advocates strongly opposed the relegation of the APR to the back page.
- *Elimination of Average Cost of Funds*: Based on its consumer testing, the Bureau used its exception authority to eliminate the Average Cost of Funds disclosure required by Congress in the Dodd-Frank Act, which would have required creditors to disclose a figure representing the cost to the creditor of the funds used to make the loan. This disclosure was strongly opposed by industry as being burdensome and unhelpful to consumers.

THE RULES

The Loan Estimate

The Loan Estimate must provide a “good faith estimate” of the loan’s costs and terms.²¹ Until the Loan Estimate is provided and the consumer indicates an intent to proceed with the transaction, a creditor cannot impose any fee other than a bona fide and reasonable credit report fee.²² A creditor is also prohibited from requiring the consumer to submit documents verifying information relating to the consumer’s application until the Loan Estimate has been provided.²³

Timing Requirements

The Loan Estimate must be delivered or placed in the mail not more than three business days after receipt of an application and not less than seven business days before consummation of the transaction.²⁴ Two definitions are critical to understanding this requirement:

- *Application*. Under the final rule, an “application” has been received for purposes of triggering the obligation to provide the Loan Estimate once the creditor receives six pieces of information:
 1. The consumer’s name;
 2. The consumer’s income;
 3. The consumer’s social security number to obtain a credit report;
 4. The property address;
 5. An estimate of the value of the property; and
 6. The mortgage loan amount sought.²⁵

This represents a departure from the definition of application that applies to the current RESPA GFE and initial TIL disclosures, which includes a seventh “catch-all” element that permits the loan originator to determine what other information is necessary to complete the application.²⁶

²¹ 12 C.F.R. § 1026.19(e)(1)(i).

²² 12 C.F.R. § 1026.19(e)(2)(i)(A).

²³ 12 C.F.R. § 1026.19(e)(2)(iii).

²⁴ 12 C.F.R. § 1026.19(e)(1)(iii).

²⁵ 12 C.F.R. § 1026.2(a)(3)(ii).

²⁶ *TRID Rule* at 120.

The CFPB acknowledged the difficulties associated with eliminating the seventh catch-all element, but concluded that creditors can resolve those issues by collecting any other information deemed necessary before obtaining all six pieces of information from the consumer (e.g., by requiring the consumer to submit all other information deemed necessary to process the application before obtaining the consumer’s social security number).²⁷

- *Business Day.* “Business day” has two different meanings for purposes of the Loan Estimate. For the requirement that the Loan Estimate be provided within three business days of application, business day means “a day on which the creditor’s offices are open to the public for carrying on substantially all of its business functions.”²⁸ However, for purposes of the seven business day waiting period before consummating the transaction, business day means all calendar days except Sundays and the legal public holidays.²⁹ Although having multiple definitions is confusing, this distinction benefits creditors by allowing more time to provide the Loan Estimate without lengthening the waiting period after the Loan Estimate is provided before the loan may be consummated.

The seven business day waiting period may be waived or modified if the consumer determines, after receiving the Loan Estimate, that the extension of credit is needed to meet a “bona fide personal financial emergency.”³⁰ However, the Bureau retained the existing requirements for such waivers or modification, which require the consumer to give the creditor a dated written statement that: (1) describes the emergency; (2) specifically modifies or waives the waiting period; (3) bears the signature of all consumers who are primarily liable on the legal obligation; and (4) is not a printed form.³¹ Because investors have historically been unwilling to purchase loans where the waiting period has been waived or modified, it is unclear whether this exception will be meaningful in allowing consumers to avoid closing delays.

Responsibility for Provision

The Loan Estimate must be provided either by the creditor or the mortgage broker who received the consumer’s application.³² However, the creditor retains ultimate responsibility – and liability – for ensuring the Loan Estimate is provided in accordance with the rule, even if the mortgage broker delivers it.³³

Permissible Changes

The Bureau generally retained the “tolerance” regime adopted by HUD in 2010, with certain adjustments. The Loan Estimate must provide a “good faith estimate of the closing costs.”³⁴ An estimate is in good faith if the “charge paid by or imposed on the consumer does not exceed the amount originally disclosed,” except as follows:

²⁷ See, e.g., *TRID Rule* at 132-3; see also comment 2(a)(3)-1 (“This definition does not prevent a creditor from collecting whatever additional information it deems necessary in connection with the request for the extension of credit.”). In addition, if a creditor provides a written estimate of terms or costs specific to a consumer before the consumer receives the Loan Estimate, the creditor must clearly and conspicuously state at the top of the first page: “Your actual rate, payment, and costs could be higher. Get an official Loan Estimate before choosing a loan.” 12 C.F.R. § 1026.19(e)(2)(ii).

²⁸ 12 C.F.R. § 1026.2(a)(6).

²⁹ *Id.*

³⁰ 12 C.F.R. § 1026.19(e)(1)(v).

³¹ *Id.*

³² 12 C.F.R. § 1026.19(e)(1)(i)-(ii).

³³ 12 C.F.R. § 1026.19(e)(1)(ii).

³⁴ 12 C.F.R. § 1026.19(e)(1)(i) and (e)(3)(i).

- *10% increase permitted for certain third-party charges.* A third-party service fee or a recording fee may be estimated and will be considered in good faith if:
 - The aggregate amount of charges for third-party services and recording fees ultimately paid by or imposed on the consumer does not exceed the aggregate amount of such charges disclosed on the Loan Estimate by more than 10%;
 - The third-party service charge is not paid to the creditor or its affiliate; and
 - The consumer is permitted to shop for the third-party service.³⁵
- *No limitations on increases for certain charges.* The following charges may be estimated and will be considered in good faith if they are consistent with the best information reasonably available to the creditor at the time the estimate is provided, regardless of the amount actually paid:
 - Prepaid interest;
 - Property insurance premiums;
 - Amounts placed into an escrow, impound, reserve, or similar account;
 - Charges paid to third-party service providers selected by the consumer that are not on the creditor's list of service providers; and
 - Charges paid for third-party services not required by the creditor, even if paid to an affiliate of the creditor.³⁶
- *Exceptions for revisions to estimates.* Unless a revision is permitted for one of the reasons discussed below, increases are not allowed for other estimated charges, such as creditor and loan originator charges and charges paid to an affiliate of the creditor. In addition, for unaffiliated third-party charges subject to the 10% limitation, the aggregate amount of such charges cannot increase by more than 10% unless an exception applies. A creditor may increase an estimated charge beyond the limitations discussed above if the increase is due to any of the following reasons:
 - *Changed circumstances affecting eligibility or settlement charges.* One of the following changed circumstances affects the consumer's creditworthiness or the value of the security or causes the estimated charge to increase:
 - An extraordinary event beyond the control of any interested party or other unexpected event specific to the consumer or transaction;
 - Information specific to the consumer or transaction that the creditor relied upon when providing the Loan Estimate and that was inaccurate or changed after the disclosures were provided; or
 - New information specific to the consumer or transaction that the creditor did not rely on when providing the original Loan Estimate.³⁷
 - Consumer request. The consumer requests revisions to the credit terms or the settlement that cause an estimated charge to increase.³⁸

³⁵ 12 C.F.R. § 1026.19(e)(3)(i)-(ii). A fee is not considered "paid to" a person if the person does not retain the fee but instead passes it on to a servicer provider. Comment 19(e)(3)(i)-3.

³⁶ 12 C.F.R. § 1026.19(e)(3)(iii).

³⁷ 12 C.F.R. § 1026.19(e)(3)(iv)(A)-(B).

³⁸ 12 C.F.R. § 1026.19(e)(3)(iv)(C).

- *Interest rate dependent charges.* The discount points, loan originator charges, and loan originator credits change because the interest rate was not locked when the Loan Estimate was provided. On the date the interest rate is locked, the final rule requires the creditor to provide a revised Loan Estimate that includes the revised interest rate, discount points, loan originator charges and credits, and all other interest rate dependent charges and terms.³⁹
- *Expiration.* The consumer does not indicate an intent to proceed with the transaction within 10 business days after the Loan Estimate was provided.⁴⁰

If an estimate is revised for one of the above reasons, the creditor must provide a revised Loan Estimate within three business days of receiving information sufficient to establish that the reason applies.⁴¹ However, the creditor must not provide a revised Loan Estimate on or after the date it provides the Closing Disclosure.⁴² Therefore, the consumer must receive the revised Loan Estimate not later than four business days prior to consummation.⁴³

For unaffiliated third-party charges subject to the 10% limitation, it appears that the final rule permits the creditor to provide a revised Loan Estimate when such charges increase by less than 10%, regardless of whether this increase is due to a changed circumstance or other exception. However, unless these charges increase in the aggregate by more than 10% due to a changed circumstance or other exception, the revised Loan Estimate does not “re-set” the 10% tolerance and the final charges will be measured against those disclosed on the original Loan Estimate or on the last revised Loan Estimate that was based on a changed circumstance or other exception.⁴⁴

The Closing Disclosure

The Closing Disclosure generally must state “the actual terms of the credit transaction, and the actual costs associated with the settlement of that transaction.”⁴⁵ If, however, information is not known despite the creditor having exercised due diligence to obtain that information, the creditor may disclose an estimate based on the best information reasonably available, even if the creditor knows that more precise information will be available at or before consummation.⁴⁶

Timing Requirements

The final rule requires that the consumer *receive* the Closing Disclosure no later than three business days before consummation.⁴⁷ If the Closing Disclosure is not delivered in person, it is presumed received three business days after it is placed in the mail, sent by email, or otherwise delivered.⁴⁸ However, the creditor

³⁹ 12 C.F.R. § 1026.19(e)(3)(iv)(D).

⁴⁰ 12 C.F.R. § 1026.19(e)(3)(iv)(E).

⁴¹ 12 C.F.R. § 1026.19(e)(4)(i).

⁴² 12 C.F.R. § 1026.19(e)(4)(ii).

⁴³ *Id.* If the revised Loan Estimate is not provided to the consumer in person, the consumer is considered to have received it three business days after the creditor delivers or places it in the mail. *Id.* If there are less than four business days between the time the revised Loan Estimate is required to be provided and consummation, a creditor may comply with this requirement if the revised disclosures are reflected in the Closing Disclosure. Comment 19(e)(4)(ii)-1.

⁴⁴ Comment 19(e)(3)(iv)(A)-1.ii.

⁴⁵ Comment 19(f)(1)(i)-1.

⁴⁶ Comment 19(f)(1)(i)-2.ii.

⁴⁷ 12 C.F.R. § 1026.19(f)(1)(ii)(A).

⁴⁸ 12 C.F.R. § 1026.19(f)(1)(iii); comments 19(f)(1)(iii)-1 and -2.

may rely on evidence that the consumer received the Closing Disclosure earlier (e.g., the consumer's signed receipt of delivery by overnight mail or acknowledgment of receipt via email).⁴⁹

For purposes of these requirements, "business day" means all calendar days except Sundays and the legal public holidays.⁵⁰ The three business day waiting period may be waived or modified in the case of a bona fide personal financial emergency, consistent with the standard discussed above.⁵¹

As discussed below, the Bureau's final rule substantially relaxes the proposed limitations on changes to the amounts disclosed on the Closing Disclosure. Nevertheless, this requirement means that the creditor and settlement agent must coordinate to obtain the "best information reasonably available" for each item on the Closing Disclosure several days or even a week before closing in order to ensure that the consumer receives the completed form three business days before closing.

Responsibility for Provision

The Closing Disclosure must be provided by either the creditor or a settlement agent. However, as with the Loan Estimate, the creditor retains ultimate responsibility – and liability – for ensuring that the disclosure is provided in accordance with the rule.⁵²

Permissible Changes

The requirements governing changes to the terms and costs on the Closing Disclosure vary depending on what item changes and when the change occurs:

- *Changes during the three business day waiting period.* In response to industry concerns about harmful closing delays, the Bureau made substantial revisions to the proposed rule, which would have required a revised Closing Disclosure and an additional three business day waiting period for most changes. Under the final rule, if a change occurs after the initial provision of the Closing Disclosure but before consummation, the creditor is generally permitted to provide a revised Closing Disclosure at or before consummation.⁵³ The only changes that require re-disclosure and a new three business day waiting period are:
 1. A change in the APR of more than 1/8 of 1 percentage point above or below the disclosed APR or, if the transaction is irregular (e.g., multiple advances or irregular payment periods), a change of more than 1/4 of 1 percentage point;⁵⁴
 2. A change in the loan product (e.g., from adjustable rate to fixed rate);⁵⁵ or
 3. The addition of a prepayment penalty.⁵⁶
- *Changes after consummation.* If during the 30 calendar days following consummation an event in connection with the settlement occurs that causes the Closing Disclosure to become inaccurate and the inaccuracy results in a change to an amount actually paid by the consumer (e.g., the fee charged by the recorder's office after closing for recording the security instrument

⁴⁹ Comments 19(f)(1)(iii)-1 and -2.

⁵⁰ 12 C.F.R. § 1026.2(a)(6).

⁵¹ 12 C.F.R. § 1026.19(f)(1)(iv).

⁵² 12 C.F.R. § 1026.19(f)(1)(v).

⁵³ 12 C.F.R. § 1026.19(f)(2)(i). The consumer must be permitted to inspect the Closing Disclosure, completed with all information known to the creditor at the time of the inspection, during the business day immediately preceding consummation, but the creditor may omit from the inspection items relating only to the seller's transaction. 12 C.F.R. § 1026.19(f)(2)(i).

⁵⁴ 12 C.F.R. §§ 1026.19(f)(2)(ii), 22(a).

⁵⁵ 12 C.F.R. §§ 1026.19(f)(2)(ii), 37(a)(10).

⁵⁶ 12 C.F.R. § 1026.19(f)(2)(ii).

differs from the amount disclosed and paid at closing), the creditor must provide a corrected Closing Disclosure within 30 calendar days of receiving information sufficient to establish the event.⁵⁷ If the Closing Disclosure contains non-numeric clerical errors, the creditor must provide a corrected Closing Disclosure no later than 60 days after consummation.⁵⁸

- *Curing Tolerance Violations.* If the estimated costs disclosed on the Loan Estimate increase the beyond the permitted levels and the consumer pays those amounts at consummation, then no later than 60 days after consummation the creditor must (1) refund the excess payment to the consumer; and (2) provide a corrected Closing Disclosure reflecting the refund.⁵⁹

Other Issues

- *“All-In” APR:* In the face of strong industry opposition and a mixed reaction from consumer advocates, the Bureau did not adopt the proposed amendments adding additional costs (such as title insurance) to the finance charge. If adopted, these amendments would have simplified the process of calculating the finance charge but also significantly increased APRs and, as a result, the number of loans considered “high-cost” or “higher-priced” unless the Bureau also made adjustments to those thresholds. The amendments could have also decreased the number of Qualified Mortgages that are eligible for the safe harbor. The Bureau did, however, state that it would reexamine this issue as part of the five-year review required by the Dodd-Frank Act for major rules.
- *Record Retention and Electronic, Machine-Readable Format Requirement:* The final rule generally requires creditors to retain evidence of compliance for three years after the later of consummation or the date a disclosure or other action is required. The final Closing Disclosure, however, and any related documents must be retained for five years after consummation by the creditor or any assignee.⁶⁰ In response to strong industry opposition, the Bureau did not adopt its proposed requirement that creditors maintain evidence of compliance in an “electronic, machine readable format.” The Bureau emphasized, however, that it would continue to work with industry and the GSEs to promote the development of electronic forms and to reduce the amount of paper used in the closing process.

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Questions regarding the matters discussed in this Alert may be directed to any of our lawyers listed below, or to any other BuckleySandler attorney with whom you have consulted in the past.

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⁵⁷ 12 C.F.R. § 1026.19(f)(2)(iii).

⁵⁸ 12 C.F.R. § 1026.19(f)(2)(iv).

⁵⁹ 12 C.F.R. § 1026.19(f)(2)(v).

⁶⁰ 12 C.F.R. § 1026.25(c).