

Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, California 94105

August 20, 2012

To State Member Banks, Bank
Holding Companies, Financial Holding
Companies, Savings and Loan Holding Companies,
and Foreign Banking Offices
in the Twelfth Federal Reserve District

Consumer Financial Protection Bureau (CFPB) Proposes Mortgage Loan Servicing Rules

On August 10, 2012, the CFPB proposed mortgage servicing rules that cover nine major topics and implement the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) provisions related to mortgage servicing. The comment periods for the proposals close on October 9, 2012. The CFPB anticipates analyzing the comments and issuing final rules by January 2013.

The rules are divided into two proposals – one to amend the regulations in the Truth in Lending Act (Regulation Z) and the other to amend the regulations in the Real Estate Settlement Procedures Act (Regulation X). As indicated in the CFPB's [press release](#), [summary](#), and [fact sheet](#), the rules would require the following:

- **Monthly Mortgage Statements** – Servicers would be required to provide billing statements that include a breakdown of payments by principal, interest, fees, and escrow; the amount of and due date of the next payment; recent transaction activity; and warnings about fees.
- **Warning Before Interest Rate Adjustments** – Servicers would be required to provide earlier disclosures (six to seven months) before the first rate adjustment for most adjustable rate mortgages, as well as additional disclosures before a rate adjustment causes an increase in a consumer's mortgage payments.
- **Force-Placed Insurance** – Servicers will only be allowed to charge borrowers for buying insurance on the property when they have a reasonable basis to believe that the borrowers have let their own insurance lapse and have given borrowers two notices estimating the cost of the force-placed insurance. The proposals also address the required termination of force-placed coverage and the reimbursement of force-placed insurance premiums.
- **Outreach to Delinquent Borrowers** – Servicers would be required to make early efforts to contact delinquent borrowers and inform them of their options to avoid foreclosure.
- **Prompt Crediting of Payments** – Servicers would generally have to credit a consumer's account as of the date a payment is received.
- **Accurate Information Management** – Servicers would be required to establish reasonable information-management policies and procedures to ensure information provided by borrowers is retained and readily available.
- **Error Resolution and Information Requests** – Servicers would be required to address potential errors within certain timeframes and provide information requested by borrowers.
- **Direct and Ongoing Access to Servicer Personnel** – Servicers would be required to provide delinquent borrowers with access to dedicated employees who can provide borrowers information and take steps to avoid foreclosure.
- **Evaluation for Alternatives to Foreclosures** – Servicers that offer options to borrowers to avoid foreclosure, such as loan modifications or other payment plans, would be required to promptly

review applications for those options. Servicers would be prohibited from proceeding with a foreclosure sale until the review of the borrower's application is complete. Servicers would also be required to let borrowers know when applications are incomplete and to allow borrowers to appeal certain servicer decisions.

We encourage bankers to understand the changes being proposed and utilize the comment period as an opportunity to influence the final rules and help prevent unintended consequences resulting from any new rules. Those wishing to submit a formal comment can submit them through <http://www.regulations.gov> ([TILA Servicing](#) and [RESPA Servicing](#)).

Resource

Please access the following for additional information on the mortgage servicing proposals:

- [Truth in Lending Act Proposal](#)
- [Real Estate Settlement Procedures Act Proposal](#)
- [Summary of Proposed Mortgage Servicing Rules](#)
- [Mortgage Servicing Proposal Factsheet](#)

Additional information on CFPB rules and related guidance can be found on the CFPB's website at <http://www.consumerfinance.gov/>.

The Federal Reserve Bank of St. Louis has also established a regulatory reform rules website that tracks the progress of more than 200 proposals and rules that will be written by the various Federal agencies to implement the Dodd-Frank Act. The site is located at: <http://www.stlouisfed.org/regreformrules/>.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's website, at <http://www.frbsf.org/banking/letters>.

For additional information regarding supervisory expectations, please contact:

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