

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

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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

CFPB Proposes New Mortgage Disclosures and High-Cost Mortgage Protections

New Mortgage Disclosures

On July 9, 2012, the Consumer Financial Protection Bureau (CFPB) issued a [proposal](#) to amend Regulation X (Real Estate Settlement Procedures Act) and Regulation Z (Truth in Lending Act) to establish new disclosure requirements and forms in Regulation Z for most closed-end consumer credit transactions secured by real property. In addition to combining the existing disclosure requirements and implementing new requirements in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the proposed rule provides extensive guidance regarding compliance with those requirements. According to the CFPB's [press release](#), the proposed "[Loan Estimate](#)" and "[Closing Disclosure](#)" forms:

- **Highlight information consumers need.** Interest rates, monthly payments, the loan amount, and closing costs are included on the first page of the CFPB's proposed form. The first page also explains how the interest rates, payments, and loan amount may change over the life of the loan, including the highest interest rate applicable. In addition, the forms include more information about taxes, insurance, and other property costs to enable consumers to better understand the total cost associated with the transaction.
- **Provide warnings of risky features.** Warnings about certain features, such as prepayment penalties and an increase in the loan balance (negative amortization) are also provided. The proposed rule also contains provisions regarding the use of estimates and requires lenders to maintain electronic copies of forms provided to consumers.
- **Increase time to consider choices.** The proposal would require lenders to provide the Loan Estimate to consumers within three business days of applying for a loan and consumers must receive the Closing Disclosure at least three business days before closing on a loan.
- **Limit closing cost increases.** The proposed rule would restrict circumstances in which consumers can be required to pay more for settlement services than the amount stated on their loan estimate.

The new mortgage disclosure proposal contains varying comment periods that range from 60 to 120 days (i.e., comments are generally due by November 6, 2012; however, comments for specific portions are due by September 7, 2012). The CFPB will review and analyze the comments before issuing final rules.

High-Cost Mortgage Protections

In addition to integrating the mortgage disclosures, the CFPB also issued a [proposal](#) to expand the types of mortgages that are subject to the Home Ownership and Equity Protection Act of 1994 (HOEPA) and provide more protections to consumers who take out those loans. According to the CFPB's [press release](#), the proposal would:

- **Ban potentially risk features.** For mortgages that qualify as high-cost based on their interest rates, points and fees, or prepayment penalties, the proposed rule would generally ban balloon payments and would completely ban prepayment penalties.
- **Ban and limit certain fees.** The CFPB's proposed rule would ban fees for modifying loans, cap late fees, and restrict the charging of fees when consumers ask for a payoff statement.
- **Require housing counseling for high-cost mortgages.** The proposed rule would require consumers to receive housing counseling before taking out a high-cost mortgage. In addition, the CFPB's proposal would implement Truth in Lending Act counseling requirements for first-time borrowers taking out certain mortgage loans that permit negative amortization. The proposal would also implement an amendment to the Real Estate Settlement Procedures Act to generally require that a list of housing counseling organizations be provided to all mortgage applicants.

The comment period for the high-cost mortgage protections proposal closes on September 7, 2012. The CFPB will review and analyze the comments before issuing final rules in January 2013.

Resources

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. For those wishing to submit comments, the notices, along with information on how to submit comments electronically, is located on the CFPB's website at <http://www.consumerfinance.gov/notice-and-comment/>

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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