

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

August 31, 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 Originator Rules

On August 17, 2012, the CFPB published for public comment proposed rules governing mortgage loan originations. The proposed rules would amend Regulation Z to implement amendments to the Truth in Lending Act (TILA) made by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The comment period for the proposed rules ends on October 16, 2012.

The proposals implement new laws, including restrictions on the payment of upfront discount points, origination points, and fees on mortgage loan transactions. The CFPB proposals would:

- **Require Lenders to Make a No-Point, No-Fee Loan Option Available** – Under the proposed rule, creditors would have to make available to consumers a loan without discount points or origination points or fees, unless the consumers are unlikely to qualify for such a loan.
- **Require an Interest Rate Reduction When Consumers Elect to Pay Upfront Points or Fees** – The CFPB is seeking comment on proposals to require that any upfront payment, whether it is a point or a fee, must be “bona fide,” which means that consumers must receive at least a certain minimum reduction of the interest rate in return for paying the point or fee.

In addition to regulating upfront points and fees, the CFPB is proposing amendments to existing rules governing mortgage loan originator qualifications and compensation. The CFPB proposal would:

- **Set Qualification and Screening Standards** – The CFPB is proposing rules to implement the Dodd-Frank Act requirements that would standardize the loan originator qualification standards.
- **Prohibit Payment of Steering Incentives to Mortgage Loan Originators** – The CFPB's proposed rule would implement the Dodd-Frank Act loan originator compensation provision and clarify certain issues in the existing rule.
- **Place Restrictions on Arbitration Clauses and Financing of Credit Insurance** – The proposal implements the Dodd-Frank Act provisions that, for both mortgage and home equity loans, prohibit mandatory arbitration clauses in loan documents and increasing loan amounts to cover credit insurance premiums.

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> ([Loan Originator Rules](#)).

Resource

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

- [Summary of Proposed Loan Originator Rules](#)
- [Regulation Z - Proposed Loan Originator Rules](#)

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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