

# Chapter 7



Learn  Mortgage

## Federal Financial Disclosure Laws

# Chapter Objectives

- Describe the purpose of the Real Estate Settlement Procedures Act and the Truth in Lending Act.
- Identify how to comply with advertising disclosure requirements set forth in the Truth in Lending Act and Regulation Z.
- Explain when and what disclosures need to be provided during the different stages of mortgage loan origination to comply with the Real Estate Settlement Procedures Act and the Truth in Lending Act as set forth in Regulation X and Z.
- Differentiate between the Business Day Rule and the More Precise Business Day Rule as the rules apply to the delivery time requirements of required federal mortgage disclosures and the right of rescission.

# Chapter Objectives

- Describe rules set forth in Regulation Z specific to providing the Loan Estimate and Closing Disclosure, including disclosure content, delivery time requirements, waiting periods, revisions and corrections, and allowed tolerances for change.
- Identify disclosure requirements for right of rescission set forth in Regulation Z.
- Identify PMI disclosure requirements set forth in the Homeowners Protection Act.
- Explain how key provisions of RESPA sections 6, 8, 9, 10, as implemented by Regulation X, impact disclosures to borrowers during all stages of mortgage loan origination and servicing.

# RESPA Introduction

- **Real Estate Settlement Procedures Act**
  - Regulation X
  - Enforced by CFPB
  - Purpose: Help consumers become better shoppers for settlement services and to eliminate unnecessary increases in the costs of certain settlement services due to unlawful kickbacks and referral fees

# RESPA Introduction

- **Key Amendments**

- 2013 and 2014:

- Escrow payments
    - Force-placed insurance
    - General servicing requirements; transfer notice
    - Early intervention
    - Continuity of contact
    - Loss mitigation
    - TILA-RESPA Integrated Disclosure Rule (TRID)

- **TRID:** Reg Z includes integrated forms, timing, and related disclosure requirements for closed-end consumer mortgage loans

# RESPA Introduction

- **Sections Impacting Mortgage Origination**
  - **Section 6**—Provides borrowers with important protections relating to the **servicing of their loans**. Mandates that homeowners be given 15 days prior and post notice before a change in loan servicers. Also provides a 60-day window for payments made to the old servicer to be forwarded to the new servicer.
  - **Section 8**—Prohibits kickbacks, fee-splitting, and unearned fees.
  - **Section 9**—States a seller cannot require the use of a particular title company.
  - **Section 10**—Identifies the amounts that can be charged to maintain escrow accounts.

# RESPA Introduction

- **Covered Transactions: Any federally-related mortgage loan secured by a first or subordinate lien on residential real property**
  - Conventional loans
  - FHA, VA, and other government-sponsored loans
  - Purchase loans
  - Reverse mortgages
  - Assumptions
  - Refinances
  - Property improvement loans
  - Equity lines of credit

# RESPA Introduction

- **Not Covered Transactions:**
  - All-cash sale
  - Sale where the individual home seller takes back the mortgage
  - Business purpose loan
  - Assumption not requiring lender approval
  - Loan conversion
  - Temporary construction loan as long as permanent financing of 1-4 family residential property is not anticipated
  - Bridge loan
  - Vacant or unimproved property, unless a dwelling will be constructed or moved onto the property within two years
  - Bona fide transfer of a loan obligation in the secondary market



## 7.1 Knowledge Check

### 1. Which of the following is a stated purpose of RESPA?

- A. eliminate unnecessary increases in the costs of certain settlement services
- B. help consumers become better shoppers for settlement services
- C. mandate educational requirements for mortgage loan originators
- D. reduce mortgage fraud committed by industry insiders

## 7.1 Knowledge Check

**2. In December 2013, the CFPB published final rules directing the CFPB to publish a single, integrated disclosure for mortgage transactions, which includes mortgage disclosure requirements under TILA and RESPA. These amendments are referred to as the**

- A. Consumer Protection Act.
- B. Regulation X.
- C. Settlement and Services Rule.
- D. TILA-RESPA Integrated Disclosure Rule.

# TILA Introduction

- **Truth in Lending Act**
  - Regulation Z
  - Enforced by CFPB
  - Purpose: Promote the informed use of consumer credit by requiring a uniform system for the disclosure of loan terms and costs, such as:
    - Consumer rescission rights
    - Rate caps on certain dwelling-secured loans
    - Limitations on HELOCS and certain closed-end home mortgages
    - Minimum standards for most dwelling-secured loans
    - Unfair or deceptive lending practices prohibitions

# TILA Introduction

- **Key Amendments**
  - HOEPA 1994: Imposed disclosure requirements
  - 2008: Provisions added to prohibit unfair, abusive, or deceptive lending and servicing practices; protections for higher-priced mortgage loans
  - MDIA 2008: required early TILA disclosures and waiting periods
  - 2013: TILA-RESPA Integrated Disclosure Rule
- **TRID:** Loan Estimate and Closing Disclosure requirements added to Regulation Z

# TILA Introduction

- **Regulation Z Subparts**
  - **Subpart B** relates to open-end credit lines.
  - **Subpart C** relates to closed-end credit; contains rules on disclosures, treatment of credit balances, annual percentage rate calculations, right of rescission, and advertising.
  - **Subpart D** contains rules on oral disclosures, Spanish language disclosure in Puerto Rico, record retention, effect on state laws, state exemptions, and rate limitations.
  - **Subpart E** contains special rules for mortgage transactions such as prohibited acts and practices in connection with high-cost and higher-priced mortgages.

# TILA Introduction

- **Covered Transactions: Most open-end and closed-end credit**
  - Credit extended primarily for a business, commercial, or agricultural purpose
  - Credit extended to other than a natural person (including credit to government agencies or instrumentalities)
  - Credit in excess of an annually adjusted threshold not secured by real property or by personal property used or expected to be used as the principal dwelling of the consumer
  - Public utility credit
  - Credit extended by a broker-dealer registered with the SEC or CFTC involving securities or commodities accounts
  - Home fuel budget plans not subject to a finance charge
  - Certain student loan programs

## 7.2 Knowledge Check

1. **The primary purpose of the federal Truth in Lending Act is to**
  - A. enable banks to sell mortgages more easily.
  - B. prevent kickbacks and unlawful referrals.
  - C. promote the informed use of consumer credit.
  - D. put procedures in place for handling settlement.

## 7.2 Knowledge Check

**2. The Truth in Lending Act is implemented by what regulation?**

- A. Regulation B
- B. Regulation D
- C. Regulation X
- D. Regulation Z



# Advertising Disclosures

- **TILA; Regulation Z**
- **Required Advertising Disclosures**
  - Must tell the whole story clearly and conspicuously



# Advertising Disclosures

- **Advertising Trigger Terms**

- **Down payment triggers**

- Only 5% down
    - As low as \$100 down
    - Total move-in costs of \$800

- *Not* triggers

- No down payment
    - No trade-in required

- **Payment period triggers**

- 48-month payment terms
    - 30-year mortgage
    - Repayment in as many as 36 monthly installments

- *Not* triggers

- Pay weekly
    - Monthly payment terms arranged
    - Take years to repay

12 C.F.R. § 1026.24

# Advertising Disclosures

- **Advertising Trigger Terms**

- **Payment amount triggers**

- Payable in installments of \$100
    - \$25 weekly
    - \$500,000 loan for just \$1,650 per month

- *Not* triggers

- Monthly payments to suit your needs
    - Regular monthly payments

- **Finance charge triggers**

- \$500 total cost of credit
    - \$2 monthly carrying charge
    - \$50,000 mortgages, 2 points to the borrower

- *Not* triggers

- Annual percentage rate
    - No closing costs

12 C.F.R. § 1026.24

# Advertising Disclosures

- Advertising Disclosures when there **is** a triggering term
  - **Total down payment \$ or %**
    - 10% cash required from the buyer
    - Credit terms require a minimum \$100 trade-in
  - **Repayment terms over the full term of the loan**
    - Unit-cost approach (48 monthly payments of \$27.83 per \$1,000 borrowed)
    - When any series of payments vary, state number and timing of payments; payments do not include amounts for mortgage insurance premiums; actual payment obligation will be higher
    - When limited time series of payments is followed by higher monthly payments for the remaining term, state number and period of each series and amounts payments

12 C.F.R.  
§ 1026.24

# Advertising Disclosures

- Advertising Disclosures when there **is** a triggering term
  - **Disclosure of annual percentage rate**
    - Must use “annual percentage rate” or APR
    - Identify if APR is subject to increase
    - May state simple annual rate at same type size as APR

*12 C.F.R. § 1026.24*

# Advertising Disclosures

- **For Closed-End Credit**
  - **Rate:** If ad states a simple annual rate of interest and **more than one rate applies** over the term of the loan, must disclose **with equal prominence and in close proximity** to the advertised rate:
    - Each simple annual rate of interest that will apply; if a variable-rate, a reasonably current index and margin must be used
    - The period of time during which each simple annual rate of interest applies
    - The APR for the loan

12 CFR § 1026.24

# Advertising Disclosures

- **For Closed-End Credit**
  - **Payment Amount:** If ad states the amount of any payment, it must also disclose with equal prominence and in close proximity to the payment:
    - The amount of each payment that applies over the term of the loan, including any balloon payment; if a variable-rate, a reasonably current index and margin must be used
    - The period of time during which each payment applies

12 CFR § 1026.24

# Advertising Disclosures

- **For Closed-End Credit**
  - **Payment and Rate Comparison:**
    - If ad compares actual or hypothetical payments or rates and a “teaser” payment or simple annual rate available, the ad must include a clear and conspicuous comparison to the terms required to be disclosed (APR, term, payments, etc.)
    - If advertising a variable rate transaction, the ad must include an equally prominent statement in close proximity that the payment or rate is subject to adjustment and the time period when the first adjustment will occur

12 CFR § 1026.24



# Advertising Disclosures

- **For Closed-End Credit**
  - **Use of Term “Fixed”:**
    - The terms “adjustable rate mortgage,” “variable rate mortgage,” or “ARM” must appear with equal prominence as any use of the term “fixed” or “fixed-rate mortgage”
    - The term “fixed” must clearly refer only to the transactions with fixed rates
    - The ad must clearly indicate the time period for which the rate or payment is fixed and the fact that the rate may vary or the payment may increase after that period

12 CFR § 1026.24

# Advertising Disclosures

- **For Closed-End Credit**
  - **Catalogs, Multiple-Page Ads, Electronic Ads**
    - The ad is considered a single advertisement under the following circumstances:
      - Table/schedule is clearly and conspicuously set forth
      - Any statement of the triggering credit terms appearing anywhere else in ad clearly refers to the page/location where the table or schedule begins
    - Table/schedule of terms must include appropriate disclosures for a representative scale of amounts up to the level of the more commonly sold higher-priced property or services offered

12 CFR § 1026.24

# Advertising Disclosures

- **For Open-End Credit**
  - Use of trigger terms or the payment terms of the plan requires disclosure of:
    - Any loan fee that is a percentage of the credit limit under the plan and an estimate of any other fees imposed for opening the plan expressed as a single dollar amount or a reasonable range
    - Any periodic rate used to compute the finance charge expressed as an annual percentage rate
    - The maximum annual percentage rate that may be imposed in a variable-rate plan

12 CFR § 1026.16

# Advertising Disclosures

- **For Open-End Credit**
  - **Balloon Payments**
    - If a minimum payment is stated, ad must disclose if balloon payment would result if only the minimum periodic payment is made
  - **Promotional Rates and Payment**
    - If promo rate/payment is stated, must disclose:
      - The period of time during which it applies
      - Any APR that applies
      - The amounts and time periods of any payments that will apply under the plan

12 CFR § 1026.16

# Advertising Disclosures

- **General Provisions**

- **Tax Implication**

- Insure ad is not misleading; advise to consult tax expert

- **Prohibited Misrepresentation**

- Government endorsements
    - Use of lender's name or debt elimination
    - Term counselor
    - Required disclosures provided incompletely in foreign languages

- **Oral Clear and Conspicuous**

- Volume and speed to comprehend

12 CFR § 1026.16

## 7.3 Knowledge Check

**1. In compliance with TILA and Regulation Z, which statement does NOT trigger additional advertising disclosures if it appears in an advertisement for credit?**

- A. 1% origination fee
- B. \$2,000 down
- C. No down payment
- D. Only 240 payments

## 7.3 Knowledge Check

**2. If an advertisement states a rate of finance charge, it must state the rate as**

- A. an APR.
- B. available to all borrowers.
- C. a periodic rate.
- D. a total interest percentage.

## 7.3 Knowledge Check

**3. When discussing an adjustable-rate mortgage that has a fixed term, the word “fixed” must be accompanied by an equally prominent and closely proximate statement of the fixed time period and the fact that the rate may vary or the payment may increase after that period.**

- A. True
- B. False



# Federal Disclosures Overview

- TILA and Regulation Z provisions primarily focus on promoting the informed use of consumer credit through proper disclosure.
- RESPA and Regulation X provisions are primarily intended to help consumers become better shoppers for settlement services.
- TRID requirements are incorporated in the provisions of Regulation Z and X.

# Federal Disclosures Overview

- Loan Estimate: Reasonable estimate
- Initial Closing Disclosure: Final details
- Final Closing Disclosure: Actual final details
- Your Home Loan Toolkit: Step-by-step guide
- List of HUD-Approved Housing Counselors
- Consumer Handbook on Adjustable-Rate Mortgages (CHARM)
- Written List of Settlement Service Providers: Providers consumer can shop for
- Affiliated Business Arrangement (AfBA) Disclosure: When there is affiliation with a provider

# Federal Disclosures Overview

- **Initial Escrow Statement:** Itemization of the estimated taxes, insurance premiums, and other charges anticipated to be paid from the escrow account during first 12 months of loan
- **Annual Escrow Statement:** Discloses all escrow account deposits and payments during the servicer's 12-month computation year
- **Servicing Transfer Notice:** Required when the loan servicer sells or assigns the servicing rights to a borrower's loan to another loan servicer.

# Federal Disclosures Overview

When	Which Disclosure
At or within 3 business days of complete application	<ul style="list-style-type: none"> <li>• Loan Estimate</li> <li>• Your Home Loan Tool Kit brochure (purchases only)</li> <li>• List of HUD-approved housing counselors</li> <li>• Written List of Settlement Service Providers when lender permits the consumer to shop</li> <li>• For ARMs: CHARM booklet</li> <li>• If applicable: AfBA Disclosure</li> </ul>
At least 3 business days before settlement	<ul style="list-style-type: none"> <li>• Initial Closing Disclosure</li> </ul>
At settlement	<ul style="list-style-type: none"> <li>• Final Closing Disclosure</li> <li>• Initial Escrow Statement</li> </ul>
After settlement	<ul style="list-style-type: none"> <li>• Annual Escrow Statement</li> <li>• Servicing Transfer Statement</li> </ul>

# Federal Disclosures Overview

- **Complete Application**
  - Triggers required federal disclosures at application
  - Consists of six pieces of information:
    - Applicant's name
    - Applicant's Social Security number
    - Applicant's income
    - Loan amount sought
    - Estimate of property value
    - Property address

12 CFR § 1026.2

# Federal Disclosures Overview

- **Settlement Service**

- RESPA: Any service provided in connection with a prospective or actual settlement, including, but not limited to:
  - Any services related to the origination, processing, underwriting, or funding of a mortgage loan, including service by a mortgage broker
  - Title services and services by an attorney
  - Preparation of documents
  - Rendering of credit reports and appraisals
  - Inspections
  - Conducting of settlement by a settlement agent and any related services
  - Services involving mortgage, hazard, flood, or other casualty insurance or homeowner's warranties
  - Services involving real property taxes or any other assessments or charges on the real property
  - Any other services for which a settlement service provider requires a borrower or seller to pay

12 CFR § 1024.14

# Federal Disclosures Overview

- **Business Day Defined**

*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; however, for purposes of rescission under § § 1026.15 and 1026.23, and for purposes of § § 1026.19(a)(1)(ii), 1026.19(a)(2), 1026.19(e)(1)(iii)(B), 1026.19(e)(1)(iv), 1026.19(e)(2)(i)(A), 1026.19(e)(4)(ii), 1026.19(f)(1)(ii), 1026.19(f)(1)(iii), 1026.20(e)(5), 1026.31, and 1026.46(d)(4), the term means all calendar days except Sundays and the legal public holidays specified in 5 U.S.C. 6103(a), such as New Year's Day, the Birthday of Martin Luther King, Jr., Washington's Birthday, Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans Day, Thanksgiving Day, and Christmas Day.*

12 CFR § 1026.2

# Federal Disclosures Overview

- **Business Day Rule**

- A day the creditor's offices are open to the public for carrying on substantially all of its business functions.
- Open for business
  - Availability of personnel to make loan disbursements, open new accounts, and handle credit transaction inquiries
- Not open for business
  - Accepting credit cards for purchases/payments or having customer-service windows open only for limited purposes

12 CFR § 1026.2



# Federal Disclosures Overview

- **3 Business Day Delivery Per Business Day Rule**
  - Loan Estimate
  - Your Home Loan Tool Kit
  - List of HUD-approved housing counselors
  - Written list of settlement service providers
  - Home equity loans: When Your Home Is on the Line
  - ARMs: CHARM booklet
  - If applicable: AfBA disclosure

12 CFR § 1026.2

# Federal Disclosures Overview

- **More Precise Business Day Rule**
  - All calendar days except Sundays and public holidays
  - If a federal holiday is observed on a different day, the exempted calendar day is the actual federal holiday

12 CFR § 1026.2

# Federal Disclosures Overview

- **More Precise Business Day Rule**
  - Applies to
    - Rescission period (3 business days)
    - Receipt of early and final disclosures if mailed or sent electronically (3 business days)
    - Waiting period before consummation (7 business days)
    - Waiting period after revised LE (4 business days)
    - Waiting period after delivery of initial CD (3 business days)
    - Waiting period after delivery of revised CD (3 business days)
    - Waiting period after HOEPA disclosures (3 business days)
    - Waiting period after reverse mortgage disclosures (3 business days)
    - Waiting period after escrow account cancellation notice (30 business days)

12 CFR § 1026.2

## 7.4 Knowledge Check

**1. RESPA requires a lender to provide the Written List of Settlement Service Providers when the lender owns greater than 1% of the referred provider or has a personal interest in the provider.**

- A. True
- B. False

## 7.4 Knowledge Check

**2. Potential borrower Lily will have submitted a complete mortgage loan application that requires an MLO to provide application disclosures required by federal law once it includes her**

- A. name, SSN, income, loan amount sought, and estimate of property value.
- B. name, SSN, income, loan amount sought, estimate of property value, and appraisal of property to be financed.
- C. name, SSN, income, loan amount sought, estimate of property value, and property address to be financed.
- D. name, SSN, income, loan amount sought, estimate of property value, and title of property to be financed.

## 7.4 Knowledge Check

**3. What disclosures must be given to the borrower at settlement?**

- A. Initial Escrow Statement
- B. Initial Closing Disclosure
- C. Final Closing Disclosure
- D. Final Loan Estimate

## 7.4 Knowledge Check

### 4. Identify the rule that matches each definition

A. Business Day Rule

B. More Precise Business Day Rule

1. The days a lender's offices are open to the public for substantially all of its business functions

**A. Business Day Rule**

2. All calendar days, except Sundays and federal holidays

**B. More Precise Business Day Rule**

# The Loan Estimate

The Loan Estimate provides the mortgage loan applicant with detailed information about a mortgage loan. Refer to Appendix for a sample of a complete Loan Estimate document.

## Loan Estimate

**DATE ISSUED** 2/15/2013  
**APPLICANTS** Michael Jones and Mary Stone  
 123 Anywhere Street  
 Anytown, ST 12345  
**PROPERTY** 456 Somewhere Avenue  
 Anytown, ST 12345  
**SALE PRICE** \$180,000

**LOAN TERM** 30 years  
**PURPOSE** Purchase  
**PRODUCT** Fixed Rate  
**LOAN TYPE**  Conventional  FHA  VA  \_\_\_\_\_  
**LOAN ID #** 123456789  
**RATE LOCK**  NO  YES, until 4/16/2013 at 5:00 p.m. EDT  
*Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on 3/4/2013 at 5:00 p.m. EDT*

Loan Terms		Can this amount increase after closing?
Loan Amount	\$162,000	NO
Interest Rate	3.875%	NO



# The Loan Estimate

- **Exemptions**

- Home equity lines of credit
- Reverse mortgages
- Loans to secure a fractional interest in real estate (timeshares)
- Loans for mobile homes or dwellings not affixed to real property
- Loans made by a person or entity that makes **five or fewer** mortgages in a calendar year
- Loans made to a non-natural person (business entity)

12 CFR § 1026.2

# The Loan Estimate

- **Good Faith Estimate Compliance**
  - Like a contract or other written agreement, by creating and issuing the LE, the lender is held to its terms.
  - Good faith determined by the difference between the initial cost estimate and the final costs charged at loan closing. The general rule is that if the settlement costs on the Closing Disclosure are:
    - **Greater** than what was disclosed initially on LE, LE is assumed to **not be made in good faith**.
    - **Equal or less** than the LE, the originator is assumed to have acted **in good faith** when making the initial LE.
  - There are some allowed tolerances for change (covered later)

12 CFR § 1026.19

# The Loan Estimate

- **Delivery Time Requirements**
  - No later than **3 business days after** the lender receives **complete application** (BDR)
  - At least **7 business days before consummation** of the transaction (More Precise BDR)
  - **Delivered in person**: LE is considered received by consumer on the day it is delivered
  - **Mailed or delivered electronically**: consumer is considered to have received it 3 business days (More Precise BDR) after mailed or transmitted
- **Scope of Responsible**
  - Lender or broker can provide LE
  - Creditor is responsible

12 CFR § 1026.19

# The Loan Estimate

- **Contents**

Section/Field	Description
<b>Date Issued Field</b>	Identifies the <b>date that required application disclosures are mailed or delivered to the consumer</b> . The method of delivering the Loan Estimate and other required disclosures to the applicant does not affect the date issued. For example, if you hand-deliver the Loan Estimate to the consumer on August 14, or you place the Loan Estimate in the mail on August 14, the date recorded as the Date Issued is August 14.
<b>Rate Lock Field</b>	Identifies <b>whether</b> the interest rate disclosed on the Loan Estimate is locked for a specific period of time via a statement labeled <b>Rate Lock</b> . For transactions in which the interest rate is locked for a specific period of time, the lender must provide the <b>date and time</b> , including the applicable time zone, <b>when that period ends</b> . The Rate Lock statement must be <b>accompanied by a statement</b> that the “interest rate, any points, and any lender credits may change unless the interest rate has been locked.” The statement must also include the date and time, including the applicable time zone, when <b>estimated closing costs will expire</b> .
<b>Loan Terms Section</b>	Identifies the <b>loan terms</b> , such as loan amount, interest rate, monthly principal, and interest, and identifies if these terms are subject to change after closing.

12 CFR § 1026.37

# The Loan Estimate

- Contents**

<b>Projected Payments Section</b>	Compares payments during the years that <b>mortgage insurance is in place</b> with the remaining years after <b>mortgage insurance is cancelled</b> , showing the borrower the difference in payments.
<b>Loan Costs Section</b>	Provides a good faith estimate of <b>origination charges, services the borrower cannot shop for, and services the borrower can shop for</b> . The rules that apply to completing this section are covered in more detail later.
<b>Other Costs</b>	Lists <b>fees that are part of the real estate closing</b> but not required by the creditor or <b>not disclosed elsewhere</b> , such as recording fees, transfer taxes, mortgage insurance premiums, property taxes, and lender credits.
<b>Estimated Cash to Close Field</b>	Discloses Estimated Cash to Close. The earnest money deposit is shown and deducted from the Cash to Close total so the borrower has a clear picture of the <b>funds required at closing</b> .
<b>At the Top of Page 3</b>	Provides the <b>loan officer's</b> name, NMLS ID, email, and phone. Also provides the name of the <b>lender or broker</b> and NMLS ID if available.
<b>Comparisons Section</b>	Provides required APR-related disclosures that an applicant can use to compare with other loan offers, including APR, TIP, total of payments made, and principal reduction of the loan in the first five years.

12 CFR § 1026.37

# The Loan Estimate

## • Contents

<b>Other Considerations Section</b>	Provides <b>required disclosures</b> , such as: <ul style="list-style-type: none"> <li>• The borrower's right to a copy of their appraisal.</li> <li>• The right to select a homeowner's insurance provider.</li> <li>• Whether the loan will be transferred for servicing.</li> <li>• Assumption, late payment, and refinancing terms.</li> </ul>
<b>Confirm Receipt</b>	Provides a designated place for borrowers to sign and confirm they have received the Loan Estimate and intend to proceed with their mortgage application.

## • Availability of Terms

- Must be available for at least 10 business days from when the Loan Estimate is provided

12 CFR § 1026.37

## 7.5 Knowledge Check

**1. When counting the number of business days it takes a mailed initial Loan Estimate to reach a consumer, which business day rule applies?**

- A. Business Day Rule
- B. More Precise Business Day Rule

## 7.5 Knowledge Check

**2. For transactions in which the interest rate is locked for a specific period of time, the lender must provide the date and time, including the applicable time zone, that identifies when that period ends.**

- A. True
- B. False



## 7.5 Knowledge Check

**3. A Loan Estimate is placed in the mail on July 15 and the applicant receives it on July 18. The Date Issued on the Loan Estimate is July 18.**

- A. True
- B. False

# APR & Finance Charge Disclosure

- **Annual Percentage Rate (APR)**
  - Not simply interest rate
  - Must reflect finance charges associated with the loan, spread out over the life of the loan
  - APR higher than interest/note rate
- **TILA**
  - Provisions require a uniform method of finance charge disclosure

12 CFR § 1026.4

# APR & Finance Charge Disclosure

- **Finance Charges**

- Interest, time price differential, and any amount payable under an add-on or discount system of additional charges
- Service, transaction, activity, and carrying charges
- Points, loan fees, assumption fees, finder's fees, and similar charges

- **Not Finance Charges**

- Interest forfeited as result of interest reduction on time deposit used as security for extension of credit
- Fees in transaction secured by real property
- Seller's points

12 CFR § 1026.4

## 7.6 Apply Your Knowledge

Two borrowers each apply for a mortgage loan of \$125,000. Their closing costs are \$3,500 for each loan and the interest rate charged is 4.25%. The first borrower receives a 30-year fixed-rate mortgage and the second borrower secures a 15-year fixed-rate mortgage.

- 1. Which borrower is quoted the highest Annual Percentage Rate?**

**Second Borrower**

## 7.6 Apply Your Knowledge

Two borrowers each apply for a mortgage loan of \$125,000. Their closing costs are \$3,500 for each loan and the interest rate charged is 4.25%. The first borrower receives a 30-year fixed-rate mortgage and the second borrower secures a 15-year fixed-rate mortgage.

**2. Which borrower will pay the higher finance charges imposed on the loan?**

**First Borrower**

## 7.6 Apply Your Knowledge

Two borrowers each apply for a mortgage loan of \$125,000. Their closing costs are \$3,500 for each loan and the interest rate charged is 4.25%. The first borrower receives a 30-year fixed-rate mortgage and the second borrower secures a 15-year fixed-rate mortgage.

**3. Which borrower will pay more in principal repayment?**

**There is no difference**

# Revised Loan Estimate Compliance

- **Revised Loan Estimate Requirement**
  - There may be valid reasons to provide borrowers with a revised Loan Estimate that may be used for good faith analysis purposes
  - Revised Loan Estimate is never required; but, also not prohibited

12 CFR § 1026.19; § 1026.25

# Revised Loan Estimate Compliance

- **Revised LE used for good faith analysis**
  1. **Changed circumstances** affecting loan terms or settlement charges, property value, or the consumer's eligibility
    - Event beyond lender or borrower control
    - Information relied on for the loan decision changes or was inaccurate
  2. **Consumer-requested** changes
  3. Status of **interest rate lock** changes (borrower-initiated lock or expiration of lock)
  4. **Expiration** of original Loan Estimate
  5. **Construction** loan settlement **delays**

12 CFR  
§ 1026.19;  
§ 1026.25



# Revised Loan Estimate

- **Changed Circumstances**

- An event that is beyond the control of creditor or borrower that occurs which results in increased settlement costs
- Information that was known or provided at the time of application changed subsequent to application and caused a change in initial loan terms, interest rates, or settlement service provider charges
- New information regarding borrower or loan that creditor did not rely on when supplying the LE
- Consumer became ineligible for an estimated charge previously disclosed because of creditworthiness or value of the security for the loan

12 CFR § 1026.19

# Revised Loan Estimate

- **Consumer-Requested Changes**
  - Consumer requests revisions to the credit terms or settlement that affect items disclosed on the Loan Estimate and that causes an estimated fee/charge to increase
- **Interest Rate Lock Changes**
  - Borrower-initiated lock or expiration of lock
  - Revised LE must be provided no later than 3 business days (BDR) after the date the interest rate is locked

12 CFR § 1026.19

# Revised Loan Estimate

- **Expiration of Initial LE**
  - The borrower does not indicate an intent to proceed with the transaction within 10 business days (BDR) after the LE is initially provided
- **Construction Loan Settlement Delays**
  - Lender reasonably expects that settlement will occur more than 60 calendar days after the initial LE

12 CFR § 1026.19(e)

# Revised Loan Estimate

- **Delivery**
  - Delivered or placed in the mail within **three business days (BDR)** of the changed circumstance and at least **four business days (More Precise BDR) prior to consummation**
  - **Must not** be issued once the Closing Disclosure has been delivered

12 CFR § 1026.19(e)

## 7.7 Apply Your Knowledge

**Yes. Re-disclosure of the increased payment due to a shorter loan term requested by the borrower is a changed circumstance that allows for a revised LE and allows the revised estimates to be used for good faith analysis. Note that a borrower-requested change versus a lender-initiated change is a key difference in the allowance of a revised LE that can be used for good faith analysis.**

## 7.7 Apply Your Knowledge

**For good faith calculation purposes, only the rate lock extension fee disclosed on the revised Loan Estimate will be compared to the actual costs charged at consummation because the change was a valid changed circumstance. MMM should disclose the higher title and appraisal fees since it is the best information reasonably available; however, the disclosure of those fees is for informational purposes only and good faith will still be determined based on the fees disclosed in the initial Loan Estimate.**

## 7.7 Apply Your Knowledge

### 3. Identify if the Business Day Rule or the More Precise Business Day Rule applies to each delivery time requirement.

<b>Business Day Rule</b>	A revised LE must be delivered within 3 business days of a changed circumstance.
<b>Business Day Rule</b>	A revised LE must be delivered within 3 business days of a locked interest rate.
<b>More Precise Business Day Rule</b>	A revised LE must be delivered at least 4 business days before consummation.

# Fee Collection Compliance

- Regulation Z prohibits **imposition of a fee** until federal disclosure requirements are met and a documented **intent to proceed** is provided by the applicant
- **Intent to proceed** can be satisfied by:
  - Oral communication over the phone
  - Written communication via email
  - Signing a pre-printed form
- **Exception:** Can collect bona fide fee to pay for credit report

12 CFR § 1026.19(e)



# Verification Documentation Request

- Lenders may collect required information with the application.
- They may not require verification before providing a Loan Estimate and other required disclosures.
- For example:
  - You may ask for the sale price and address of the property, but you may not require the consumer to provide a purchase and sales agreement to support the information provided orally.
  - You may ask for the names, account numbers, and balances of the consumer's checking and savings accounts, but you may not require the consumer to provide bank statements or similar documentation to support the information provided.

12 C.F.R. § 1026.37

# E-Sign Consent Compliance

- Clear and conspicuous statement informing consumer:
  - Of right or option to have record provided or made available on paper or in non-electronic form; right to withdraw consent
  - Whether consent applies only to the particular transaction or categories of records throughout relationship
  - About procedures to withdraw consent and update electronic contact information
  - How to request paper copy and any fee charged for it
  - Of hardware and software requirements to access and retain electronic records
- Consumer must reasonably demonstrate can access information in the electronic form that will be used by lender

*15 USC 7001*

## 7.8 Knowledge Check

**1. What fees may an MLO charge a mortgage loan applicant prior to providing the Loan Estimate and other required application disclosures?**

- A. appraisal fee
- B. application processing fee
- C. credit report fee
- D. title report fee

## 7.8 Knowledge Check

**2. Before providing the Loan Estimate and other required application disclosures to a prospective borrower, an MLO may ask for the sale price and address of the property but may not require the consumer to provide a purchase and sale agreement to support the information the consumer provided orally.**

- A. True
- B. False

# List of HUD-Approved Housing Counselors

- **Requirement:**
  - Not later than **three business days** (Business Day Rule) after a lender receives an application or information sufficient to complete an application, the lender must provide the loan applicant with a clear and conspicuous **written list of homeownership counseling organizations** that provide relevant counseling services **in the loan applicant's location.**

*12 C.F.R. § 1024.20*

# List of HUD-Approved Housing Counselors

- **Content:**
  - Must be obtained no earlier than **30 days** prior to time when list is provided to applicant
  - Must include **10** HUD-approved housing counseling agencies; use the loan applicant's five-digit zip code to generate
  - Required language
  - If mortgage broker or dealer provides, the lender is not required to provide an additional list
  - If transaction involves >1 lender, only one list required

*12 C.F.R. § 1024.20*

# Written List of Settlement Service Providers

- **Requirements**
  - Identify at least 1 available provider for each type of settlement service that can be shopped for
  - State that consumer may choose a different provider for that service and that listing a provider is not an endorsement
- **Delivery**
  - Within 3 business days after a complete application
  - Separately from the Loan Estimate
  - Use model form in Regulation Z appendix
  - Maintain evidence of disclosure compliance for 3 years

*12 C.F.R. § 1026.19*

# Affiliated Business Relationship Disclosure

- **Requirement**

- Provide disclosure when lender owns greater than 1% of the referred provider or has personal interest in provider
- Disclose
  - Nature of the relationship
  - Estimated charge or range of charges
- Disclosure Timing
  - At the time of the referral or before referral
  - It is a referral when an affiliated provider is listed on Written List of Settlement Service Providers given to consumer
  - Provide with LE to meet requirement

- **Example Violation**

*12 C.F.R. § 1024.15*



## 7.9 Knowledge Check

**1. Lender Larry must provide an applicant with a list of \_\_\_\_\_ HUD-approved housing counseling agencies.**

- A. three
- B. five
- C. seven
- D. ten

## 7.9 Knowledge Check

**2. Regulation Z requires the lender to provide the borrower with a Written List of Settlement Service Providers when the service is listed in what section of the Loan Estimate?**

- A. Section B: Services You Cannot Shop For
- B. Section C: Services You Can Shop For

## 7.9 Knowledge Check

**3. In the case you just read, TTC violated RESPA by failing to**

- A. disclose its relationship with the title insurer.
- B. legally register its relationship with the title insurer.
- C. offer the borrower the option to obtain title insurance.
- D. pass some of the referral savings on to the consumer.

# The Closing Disclosure

## • Content

- Fields are same or similar as Loan Estimate
- Page 1: Loan terms, projected payments, and costs at closing
- Page 2: Closing costs, such as Origination Charges, Services Borrower Did Not Shop For, Services Borrower Did Shop For, Prepays, etc.

### Closing Disclosure

*This form is a statement of final loan terms and closing costs. Compare this document with your Loan Estimate.*

#### Closing Information

**Date Issued** 4/15/2013  
**Closing Date** 4/15/2013  
**Disbursement Date** 4/15/2013  
**Settlement Agent** Epsilon Title Co.  
**File #** 12-3456  
**Property** 456 Somewhere Ave  
 Anytown, ST 12345  
**Sale Price** \$180,000

#### Transaction Information

**Borrower** Michael Jones and Mary Stone  
 123 Anywhere Street  
 Anytown, ST 12345  
**Seller** Steve Cole and Amy Doe  
 321 Somewhere Drive  
 Anytown, ST 12345  
**Lender** Ficus Bank

#### Loan Information

**Loan Term** 30 years  
**Purpose** Purchase  
**Product** Fixed Rate  
**Loan Type**  Conventional  FHA  
 VA   
**Loan ID #** 123456789  
**MIC #** 000654321

#### Loan Terms

**Loan Amount**

\$162,000

#### Can this amount increase after closing?

**NO**

12 C.F.R. § 1026.38

# The Closing Disclosure

- **Content**

- Page 3: Cash to Close and comparative transaction details
- Page 4: Required loan disclosure, such as applicable assumption, demand features, late payment, and negative amortization disclosures
- Page 5: Required total amount of the payments and finance charge disclosures, information associated with the borrower's home; contact information for lender, mortgage broker, real estate agent, and settlement agent

12 C.F.R. § 1026.38

# The Closing Disclosure

- **Delivery Time Requirement**
  - Borrower must receive at least 3 business days before consummation
  - Begins immediately if delivered in person
  - If mailed or delivered electronically, the consumer is considered to have received the Closing Disclosure 3 business days (More Precise BDR) after it is sent
  - Where a bona fide personal financial emergency exists, the borrower may shorten or waive the waiting period by giving the lender a written statement

12 C.F.R. § 1026.19

# The Closing Disclosure

- **Responsibility of Delivery**
  - Lender: To consumer
  - Settlement Agent: To seller
  - Can share responsibility; lender ultimately responsible for accuracy and delivery
- **Delivery to Multiple Borrowers**
  - Rescindable under TILA: Provide to each borrower
  - Not rescindable under TILA: Provide to any consumer with primary liability

*12 C.F.R. § 1026.17 and § 1026.38*

# The Closing Disclosure

- **Final Closing Disclosure**
  - Delivered at loan consummation
  - Must show the actual terms and charges associated with the loan transaction

*12 CFR § 1026.19(f)*



# The Closing Disclosure

- **Revised Closing Disclosure**
  - Changes to the loan product
  - Prepayment penalty added
  - APR changes outside accepted tolerances
    - Regular transaction: +/- 0.125% (1/8%)
    - Irregular transaction: +/- 0.250% (1/4%)

12 CFR § 1026.19(f)

# The Closing Disclosure

- **Correction After Consummation**
  - **Event that impacts settlement charges:** A revised Closing Disclosure must be delivered or placed in the mail not later than 30 calendar days after receiving information.
  - **Changes due to clerical errors:** A revised Closing Disclosure is to be delivered or placed in the mail no later than 60 calendar days after consummation.
  - **Refunds related to the good faith analysis:** A revised Closing Disclosure and refund are to be delivered or placed in the mail no later than 60 calendar days after consummation.

12 CFR § 1026.19(f)

## 7.10 Knowledge Check

**1. Which of the following changed circumstances triggers a new three-business-day waiting period from the receipt of a valid revised Closing Disclosure until closing?**

- A. A borrower's appraisal reflects a higher collateral value than initially expected.
- B. A borrower chooses to take additional cash out, which does not result in an APR increase.
- C. A borrower chooses to take cash out, which results in an APR increase of 1/8% on a fixed-rate mortgage.
- D. Settlement service charges are significantly less than provided on the initial Closing Disclosure.

## 7.10 Knowledge Check

**2. What business day rule applies to providing the initial and revised Closing Disclosure three business days prior to consummation?**

- A. Business Day Rule
- B. More Precise Business Day Rule

## 7.10 Knowledge Check

**3. Given the provided circumstance, identify the number of calendar days for which a corrected Closing Disclosure needs to be provided to the borrower: 30 or 60**

An error in the disclosed amount paid by the borrower

**30**

An error in the disclosed amount paid by the seller

**30**

A non-numerical clerical error

**60**

The borrower overpaid the settlement charge; refund required

**60**

# Good Faith Estimate Compliance

- **Section A: Origination Charges:** Services paid by the consumer to each creditor and loan originator for originating and extending the credit
- **Section B: Services You Cannot Shop For:** Services provided by persons other than the lender or mortgage broker that the consumer cannot shop for and will pay for at settlement
- **Section C: Services You Can Shop For:** Services provided by persons other than the lender or mortgage broker that the consumer can shop for and will pay for at settlement
- **Tolerance for Change Categories:** Zero, unlimited, or limited (10% aggregate)

# Good Faith Estimate Compliance

- **Zero Tolerance for Change**
  - Fees paid to the creditor
  - Fees paid to a mortgage broker
  - Fees paid to an affiliate of the creditor or mortgage broker
  - Fees paid to an unaffiliated third party if the creditor did not permit the consumer to shop
- **Loan Costs page 2 of LE and CD**
  - **Section A**, Origination Charges
  - **Section B**, Services You Cannot (Did Not) Shop For

*12 CFR § 1026.38(f)*

# Good Faith Estimate Compliance

- **Determine Section C Tolerance for Change**

*For services a consumer can shop listed in Section C of the Loan Estimate, did the borrower select a provider on the list or go with the lender default?*

- Answer: **Yes** the borrower DID select provider on list or go with lender default then the fee goes in Closing Disclosure **Section B - Services Borrower Did Not Shop For**
  - If the default provider or provider selected from the list:
    - Is an affiliate = zero tolerance for change
    - Is not an affiliate = 10% aggregate tolerance for change

12 CFR § 1026.38(f)



# Good Faith Estimate Compliance

- **Determine Section C Tolerance for Change**

*For services a consumer can shop listed in Section C of the Loan Estimate, did the borrower select a provider on the list or go with the lender default?*

- Answer: **No** the borrower did NOT select provider on list or go with lender default (the borrower shopped and selected a provider not on the list) then the fee goes in Closing Disclosure **Section C - Services Borrower Did Shop For**

If the provider selected is NOT on the list = unlimited tolerance for change if bona fide.

12 CFR § 1026.38(f)

## 7.11 Knowledge Check

**1. If the provider fee was listed in Section B of the Loan Estimate, the fee always goes in Section B of the Closing Disclosure.**

- A. True
- B. False

## 7.11 Knowledge Check

**2. If the borrower could shop for a provider and chose a provider from the written list, the fee goes in \_\_\_\_ of the Closing Disclosure.**

- A. Section B - Services Borrower Did Not Shop For
- B. Section C - Services Borrower Did Shop For

## 7.11 Knowledge Check

**3. Borrower Marsha is given the Written List of Settlement Service Providers as required to select a settlement agent. Marsha decides on the settlement agent from XYZ Company. The settlement agent for XYZ Company is on the Written List of Settlement Service Providers and XYZ Company is not affiliated with the lender. This fee goes in \_\_\_ of the Closing Disclosure and is subject to \_\_\_ for change.**

- A. Section B; zero tolerance
- B. Section B; 10% aggregate tolerance
- C. Section C; 10% aggregate tolerance
- D. Section C; unlimited tolerance

# Good Faith Estimate Compliance

- **Other Costs with Zero Tolerance**
  - **Transfer Tax**
  - **Lender Credits**
    - **Reduction in credits = increased charge** to the borrower for purposes of determining good faith
    - **Increase lender credits = Allowed**; does not increase the amount paid by the consumer

# Good Faith Estimate Compliance

- **Other Costs with Unlimited Tolerance if based on best info reasonably available**
  - Prepaid interest (Section F)
  - Prepaid property insurance premiums (Section F)
  - Prepaid property taxes (Section F)
  - Amounts placed into an escrow, impound, reserve, or similar account (Section G)
  - Other charges paid for third-party services not required by the lender (Section H)
- **Other Costs with Limited Tolerance**
  - Recording Fees (Section E)

# 7.12 Knowledge Check

**Identify the tolerance for change between the Loan Estimate and Closing Disclosure allowed for each cost. A. Zero B. 10% Aggregate C. Unlimited**

1. Section F Prepays: Prepaid Interest	<b>Unlimited</b>
2. Section G Initial Escrow Payment at Closing: Homeowner's Insurance	<b>Unlimited</b>
3. Section H Other: Real Estate Commission	<b>Unlimited</b>
4. Section E Taxes and Other Government Fees: Recording Fees	<b>10% aggregate</b>
5. Section E Taxes and Other Government Fees: Transfer Taxes	<b>Zero</b>
6. Borrower goes with lender default unaffiliated provider	<b>10% aggregate</b>
7. Borrower selects affiliated provider not on the list	<b>Unlimited</b>

# Good Faith Estimate Compliance

COMPARING CHARGES ON CLOSING DISCLOSURE WITH CHARGES OF LOAN ESTIMATE		
ZERO TOLERANCE	LIMITED TOLERANCE (10% AGGREGATE)	UNLIMITED TOLERANCE IF BONA FIDE
<p>SERVICES REQUIRED BY LENDER and PAID TO LENDER, BROKER, OR AFFILIATED THIRD PARTY (NO SHOPPING ALLOWED)</p> <ul style="list-style-type: none"> <li>Section A Origination Charges (LE and CD)</li> <li>Section B Services You Cannot Shop For (LE) and Services You Did Not Shop For (CD)</li> <li>Section J (Lender Credit – no reduction allowed) (LE and CD)</li> </ul> <p>SERVICES REQUIRED BY LENDER and PAID TO UNAFFILIATED THIRD PARTY (NO SHOPPING ALLOWED)</p> <ul style="list-style-type: none"> <li>Section B Services You Cannot Shop For (LE) and Services You Did Not Shop For (CD)</li> </ul> <p>SERVICES REQUIRED BY LENDER and PAID TO AFFILIATED THIRD PARTY (SHOPPING ALLOWED and WRITTEN LIST SHOWS SERVICE AND PROVIDER CHOSEN/USED)</p> <ul style="list-style-type: none"> <li>Section C Services You Can Shop For (LE) but Section B Services You Did Not Shop For (CD)</li> </ul> <p>TRANSFER TAXES</p> <ul style="list-style-type: none"> <li>Section E (LE and CD)</li> </ul>	<p>SERVICES REQUIRED BY LENDER and PAID TO UNAFFILIATED THIRD PARTY (SHOPPING ALLOWED and WRITTEN LIST SHOWS SERVICE AND PROVIDER CHOSEN/USED) *</p> <ul style="list-style-type: none"> <li>Section C Services You Can Shop For (LE) but Section B Services You Did Not Shop For (CD)</li> </ul> <p>RECORDING FEES</p> <ul style="list-style-type: none"> <li>Section E (LE and CD)</li> </ul>	<p>SERVICES REQUIRED BY LENDER and PAID TO AFFILIATED or UNAFFILIATED THIRD PARTY (SHOPPING ALLOWED, BORROWER DID SHOP, and SERVICE AND PROVIDER CHOSEN NOT ON WRITTEN LIST)*</p> <ul style="list-style-type: none"> <li>Section C Services You Can Shop For (LE) and Services You Did Shop For (CD)</li> </ul> <p>SERVICES NOT REQUIRED BY LENDER (AFFILIATED OR UNAFFILIATED CHOSEN BY BORROWER)</p> <ul style="list-style-type: none"> <li>Section H Other (LE and CD)</li> </ul> <p>PREPAID INTEREST &amp; PROPERTY INSURANCE</p> <ul style="list-style-type: none"> <li>Section F Prepays (LE and CD)</li> </ul> <p>ESCROW ITEMS &amp; IMPOUNDS</p> <ul style="list-style-type: none"> <li>Section G Initial Escrow Payment at Closing (LE and CD)</li> </ul>

\* Errors/Omissions in Written List of Providers (WLP) or failure to provide WLP will cause unlimited tolerance to revert to limited tolerance for unaffiliated providers and zero tolerance for affiliated providers. Where any error/omission effectively prevents a borrower from shopping, a zero tolerance will apply regardless of affiliation.



## 7.13 Apply Your Knowledge

Borrower Ben applies for a \$200,000 refinance loan. He uses the services of mortgage broker Mandy, who charges a 1% origination fee and a \$600 processing fee. Mandy intends to broker the loan to a wholesale lender, who charges a \$1,000 administration fee.

## 7.13 Apply Your Knowledge

**1. What dollar amount must be shown on the Loan Estimate on Page 2, Section A “Origination Charges”?**

**\$3,600**

**2. If mortgage broker Mandy is unsuccessful at obtaining approval with the first lender and submits the loan file to a second lender whose administration fee is \$1,200, what can the broker do about the fee increase?**

**Mandy may not increase fee**

## 7.13 Apply Your Knowledge

**3. If the dollar amounts shown on the Loan Estimate for items listed on Page 2, Section B of the “Services You Cannot Shop For” total \$4,625, what is the maximum amount the borrower Ben can be charged on the final Closing Disclosure?**

**\$4,625**

**4. If the actual fees charged on the Closing Disclosure for items listed on Page 2, Section B of the Loan Estimate total \$6,000 rather than \$4,625, what must mortgage broker Mandy do?**

**Mandy must pay a tolerance cure of \$1,375 at closing or within 60 days of consummation**

# Evidence of Disclosure Compliance

- General Rule: 2 years record maintenance
- Longer than 2 years
  - LE and related documents: **3** years after consummation
  - CD and related documents: **5** years after consummation
  - Loan originator compensation documents: **3** years after the date of payment
  - Minimum qualification standards for most closed-end transactions secured by a dwelling: **3 years** after consummation

## 7.14 Apply Your Knowledge

**Read the case study and  
answer the discussion questions.**

## 7.14 Apply Your Knowledge

**1. Is Jason correct that prepaid interest is generally subject to unlimited tolerance? Why or why not?**

**Yes.**

**TILA, under Regulation Z, permits an unlimited increase above what was disclosed on the Loan Estimate for prepaid interest.**

## 7.14 Apply Your Knowledge

**2. In this case, why will the change in the prepaid interest amount be deemed a violation of TILA? Why or why not?**

**Yes.**

**The initial amount did not meet the standards of a reasonable estimate.**

## 7.14 Apply Your Knowledge

**3. Is Jason accurate in his explanation that origination charges will increase when interest rates increase after initial disclosure? Why or why not?**

**No.**

**Discount fees and not the origination fees are impacted by an interest rate change.**



## 7.14 Apply Your Knowledge

**4. The origination fee paid to Rock Mortgage is subject to what tolerance for change after the initial disclosure?**

**zero tolerance**

## 7.14 Apply Your Knowledge

**5. Jason told Dwayne that the increase in the title charges caused the aggregate settlement charges to increase by more than the allowed 10%. In this case, why would the charge for the title company be subject to zero tolerance?**

- Dwayne should have been able to shop for the service and was not allowed.**
- The title company defaulted to by the mortgage company is an affiliate.**

# Right of Rescission Compliance

- **Reg Z Requirement**
  - Consumers have the **right to rescind** certain credit transactions
  - Applies to any credit transaction involving the establishment of a security interest in a principal residence

12 CFR § 1026.15 and § 1026.23

# Right of Rescission Compliance

- **Reg Z Disclosure Requirement**
  - When more than one consumer has the right to rescind, the exercise of the right is effective for **all**
  - If consumer chooses to exercise the right to rescind, the mortgage is void and creditor must return any money collected related to the loan **within 20 calendar days**
  - Consumers may rescind the credit transaction **until midnight of the 3rd business day** following loan consummation, delivery of the rescission notice, or delivery of material disclosures, **whichever occurs last**

12 CFR § 1026.15 and § 1026.23



## Case in Point

- Loan papers for a refinance are signed on Wednesday. The consumer can consider the paperwork and disclosures and decide if she will proceed with the mortgage closing on Thursday (Day 1), Friday, and Saturday. Saturdays *are* included in the rescission period, but Sundays and federal holidays are *not* included in the three-business-day calculation.
- The mortgage can be recorded and money disbursed the next business day, Monday (assuming Monday is not a legal federal holiday).

Wednesday	Thursday	Friday	Saturday	Sunday	Monday
Loan Consummation	Day 1	Day 2	Day 3	--	\$\$ Disbursed

# TILA Right of Rescission Disclosure

- **Extended Right to Rescind**
  - Up to 3 years if fail to:
    - Properly notify consumers of the right to rescind
    - Provide the consumer with the required material disclosures

12 CFR § 1026.15 and § 1026.23

# TILA Right of Rescission Disclosure

- **Notice of Right to Rescind**
  - Must provide 2 copies of a Notice of Right to Rescind document to each consumer entitled to rescind
  - Must be in separate document and conspicuously disclose:
    - Retention or acquisition of a security interest in the consumer's principal dwelling
    - Consumer's right to rescind
    - How to exercise right of rescission, with form designating address of creditor's place of business
    - Effects of rescission
    - Date on which the rescission period ends

12 CFR § 1026.15 and § 1026.23

# TILA Right of Rescission Disclosure

- **Right to Rescind and Foreclosure**
  - After initiation of foreclosure, right to rescind the transaction if:
    - A mortgage broker fee that should have been included in the finance charge was not included
    - The creditor did not provide the properly completed Notice of Rescission
    - Finance charge accurate if:
      - ✓ Understated by no more than \$35; or
      - ✓ Greater than the amount required to be disclosed.

12 CFR § 1026.15 and § 1026.23



# HPA PMI Cancellation Disclosure

- **Homeowners Protection Act:** Requires certain disclosures concerning PMI cancellation
- **Disclosure Requirements at Consummation**
  - **Borrower Right to Request Cancellation**
    - When paid down to 80% of its original appraised value or purchase price, whichever is less
    - When borrower has a good history of payment, not taken out any other loans on the property, and not experienced decline in home value

12 USC § 4901-4905

# HPA PMI Cancellation Disclosure

- **Disclosure Requirements at Consummation**
  - **Automatic Termination**
    - When paid down to 78% of its original appraised value, assuming loan is current
  - **Borrower Prepayment Right**
    - Right to accelerate PMI cancellation by making additional payments that bring the LTV ratio to 80%
- **Annual Disclosure Required**

12 USC § 4901-4905

# HPA PMI Cancellation Disclosure

- **Notification Requirement**
  - **Not later than 30 days** after the date of cancellation or termination of PMI, the servicer must notify the borrower in writing that:
    - The PMI has terminated and that the borrower no longer has private mortgage insurance, and
    - No further premiums, payments, or other fees shall be due or payable by the borrower in connection with the PMI.

12 USC § 4901-4905

## 7.15 Knowledge Check

**1. Kevin is refinancing the home that he lives in. In compliance with TILA and Regulation Z, the length of the rescission period for this mortgage loan is**

- A. 3 business days, excluding Saturday, Sunday, and holidays.
- B. 3 business days, including Saturday and excluding Sunday and holidays.
- C. 3 business days, including Saturday and Sunday and excluding holidays.
- D. 5 business days, including Saturday and excluding Sunday and holidays.

## 7.15 Knowledge Check

**2. Borrower Juanita signs the note and mortgage for a refinance on her principal residence on Thursday, December 31. As set forth by TILA and implemented by Regulation Z, what is the earliest day the funds for this loan can be disbursed?**

- A. Saturday, Jan 2
- B. Monday, Jan 4
- C. Tues, Jan 5
- D. Wed, Jan 6

## 7.15 Knowledge Check

**3. Not later than \_\_\_\_\_ days after the date of cancellation or termination of PMI, the servicer must notify the borrower in writing that the PMI has terminated.**

- A. 10
- B. 15
- C. 30
- D. 45

# More on RESPA

- **Consumer Protecting Sections**
  - Section 6 - Provides servicing protections
  - Section 8 - Prohibits kickbacks, fee-splitting, and unearned fees
  - Section 9 - Prohibits seller from requiring title company
  - Section 10 - Identifies amounts that can be charged and maintained in escrow

# More on RESPA

- **Section 6**
  - **Transfer Disclosure**
    - Servicers must provide borrower with Notice of Transfer 15 days before transfer
    - Exceptions for extending notice to 30 days before transfer
    - Exemptions from notice requirement
  - **Handling Payment**
    - During 60-days of effective day of transfer, payments received on or before the applicable due date may not be treated as late 12 CFR § 1024.33



# More on RESPA

- **Section 8 Prohibitions**
  - Prohibits giving or accepting a fee, kickback, or any thing of value in exchange for referrals of settlement service business
  - Prohibits fee-splitting and receiving unearned fees or a % of any charge for services not actually performed
- **Section 8 Allowance**
  - Permits some payments for bona fide salary/compensation and actual services, such as payment to an attorney or title company
  - Permits payment to one provider for multiple services; charges must be actual, necessary, and distinct

12 CFR § 1024.14

# More on RESPA

- **Section 9 Prohibition**
  - A seller cannot require the homebuyer to use a particular title insurance company, either directly or indirectly, as a condition of sale
- **Section 10 Limitation**
  - Sets limits and cushion on the amounts a lender may require a borrower to put into an escrow account
  - Must complete analysis
  - Provide initial escrow account statement to the borrower at settlement or within 45 calendar days of settlement; then annually

12 U.S.C. 2608 and 2609

## 7.16 Knowledge Check

**1. The transferor servicer must provide the notice of transfer for any assignment, sale, or transfer of the servicing of the mortgage loan to the borrower not less than how many days before the effective date of the transfer of the servicing of the mortgage loan?**

- A. 15 days
- B. 30 days
- C. 45 days
- D. 60 days

## 7.16 Knowledge Check

**2. During the \_\_\_\_-day period beginning on the effective date of transfer of the servicing of any mortgage loan, if the transferor servicer receives payment on or before the applicable due date, a payment may not be treated as late for any purpose.**

- A. 45
- B. 60
- C. 90
- D. 120

## 7.16 Knowledge Check

**3. A donation to a charitable cause in exchange for a referral of business would not constitute a violation of RESPA because the donation would not be paid directly to the referring party.**

- A. True
- B. False

## 7.16 Knowledge Check

4. \_\_\_\_\_ a sale to be conditioned on the use of a particular title company chosen by the seller.
- A. If full disclosure is made, RESPA allows
  - B. If no kickbacks are involved, RESPA allows
  - C. If no unearned fees are involved, RESPA allows
  - D. Under no circumstances does RESPA allow

# Chapter 7



## Chapter Quiz

# Chapter 7 Quiz

- 1. The federal Truth in Lending Act**
  - A. prevents a broker from advertising FHA financing is available.
  - B. prohibits lenders from advertising promotional interest rates.
  - C. regulates advertising with references to mortgage interest rates.
  - D. requires a lender to estimate the seller's closing costs on residential loans.



## Chapter 7 Quiz

- 2. What Act became effective June 20, 1975, with the purpose of helping consumers become better shoppers for settlement services?**
- A. Equal Credit Opportunity Act
  - B. Home Mortgage Disclosure Act
  - C. Real Estate Settlement Procedures Act
  - D. Truth in Lending Act

# Chapter 7 Quiz

- 3. RESPA is implemented by**
- A. Regulation B.
  - B. Regulation H.
  - C. Regulation X.
  - D. Regulation Z.

# Chapter 7 Quiz

- 4. What statement triggers additional loan term disclosure for advertising purposes, according to the Truth in Lending Act?**
- A. FHA financing available
  - B. Low down payment.
  - C. Pay only \$500 per month.
  - D. We make VA loans.

## Chapter 7 Quiz

- 5. Following the Business Day Rule, an MLO must deliver or place in the mail the Loan Estimate no later than the \_\_\_\_\_ business day after receiving a complete application.**
- A. 3rd
  - B. 5th
  - C. 7th
  - D. 10th

## Chapter 7 Quiz

- 6. The initial Loan Estimate must also be delivered or placed in the mail no later than the \_\_\_\_ business day before consummation of the transaction applying the More Precise Business Day Rule.**
- A. 1st
  - B. 3rd
  - C. 5th
  - D. 7th

# Chapter 7 Quiz

- 7. Applying the More Precise Business Day Rule, the consumer must receive a revised Loan Estimate no later than \_\_\_ business day(s) prior to loan consummation.**
- A. one
  - B. three
  - C. four
  - D. seven

## Chapter 7 Quiz

8. A lender must provide a consumer with a(n) \_\_\_\_\_ when the lender owns greater than \_\_\_\_\_ of the referred provider or has a personal interest in the provider.
- A. AfBA Disclosure; 1%
  - B. GFE; 10%
  - C. HUD-1; 5%
  - D. Special Information Booklet; 3%

# Chapter 7 Quiz

9. **Applicant Chuck is given a Written List of Settlement Service Providers at the same time he receives a Loan Estimate. The list of settlement service providers includes referrals to lender affiliates. The AfBA disclosure must be provided to Chuck**
- A. within 3 days of a complete application.
  - B. at the same time he receives the Written List of Settlement Service Providers.
  - C. within 3 days of the Written List of Settlement Service Providers being provided.
  - D. within 4 days of consummation.



# Chapter 7 Quiz

- 10. Wyatt needs to add his wife to the loan application so he can use her income to qualify. Which of the following is a TRUE statement as it relates to the lender providing a revised LE?**
- A. The lender needs to identify if the change impacts any fees to determine if a revised LE is allowed.
  - B. This is a changed circumstance in borrower eligibility that allows for a revised LE.
  - C. This is a consumer-requested change that allows for a revised LE but the new LE cannot be used for good faith analysis.
  - D. This is not a valid circumstance that allows for a revised LE.

# Chapter 7 Quiz

- 11. Which accurately reflects the time requirement for delivering the Closing Disclosure to a borrower?**
- A. 3 business days after complete application; Business Day Rule applies
  - B. 7 business days after application; More Precise Business Day Rule applies
  - C. 3 business days before consummation; More Precise Business Day Rule applies
  - D. 3 business days before consummation; Business Day Rule applies

## Chapter 7 Quiz

**12. If the final APR at settlement deviates by more than \_\_\_\_\_ from the initial APR on the preliminary Closing Disclosure on an irregular loan, an additional waiting period is triggered.**

- A. 1/4%
- B. 1/2%
- C. 3/8%
- D. 6/8%

## Chapter 7 Quiz

**13. The Loan Estimate and Closing Disclosure both include Section F Prepaids, Section G Initial Escrow Payment at Closing, and Section H Other. There is a(n) \_\_\_\_\_ tolerance for change for the costs in these three sections as long the Loan Estimate provides a reasonable estimate of the cost.**

- A. limited
- B. unlimited
- C. zero
- D. unknown

## Chapter 7 Quiz

- 14. When PMI is required for conforming adjustable-rate mortgages, the lender must provide required PMI cancellation disclosure notices**
- A. with the initial Closing Disclosure.
  - B. three business days before closing.
  - C. at loan consummation.
  - D. within 30 days of loan consummation.

# Chapter 7 Quiz

**15. According to the Truth in Lending Act, \_\_\_\_\_ is to be EXCLUDED from the finance charge.**

- A. interest
- B. points
- C. processing fee
- D. seller's points

## Chapter 7 Quiz

- 16. The \_\_\_\_\_ is the only fee a lender can collect until the borrower has received the initial application disclosures, including the Loan Estimate, and the lender has acknowledged the borrower's intent to proceed with the mortgage loan.**
- A. appraisal fee
  - B. application processing fee
  - C. credit report fee
  - D. title search fee

# Chapter 7 Quiz

**17. If the borrower was given a Written List of Service Providers and decides to go with the lender's default provider, the fee for this provider goes in what section of the Closing Disclosure?**

- A. Other
- B. Services Borrower Did Not Shop For
- C. Services Borrower Did Shop For
- D. Title and Government Fees



# Chapter 7 Quiz

**18. The servicer must notify the borrower at least \_\_\_\_\_ during the escrow account computation year if there is a shortage or deficiency in the escrow account.**

- A. once
- B. monthly
- C. quarterly
- D. twice

# Chapter 7 Quiz

**19. In compliance with the E-Sign Act, how must institutions confirm consumers can access electronic documents?**

- A. obtain consumer consent by any communication method available
- B. obtain consumer consent electronically
- C. obtain consumer consent by mail
- D. obtain consumer consent by telephone

## Chapter 7 Quiz

**20. Elwood is refinancing the mortgage loan secured by the home that is his primary residence. How long will he have to rescind the loan after he is provided notice of the right to rescind as required by TILA and Regulation Z?**

- A. 3 calendar days
- B. 3 business days
- C. 7 calendar days
- D. 7 business days