

MORTGAGE REFORM UNDER THE DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT

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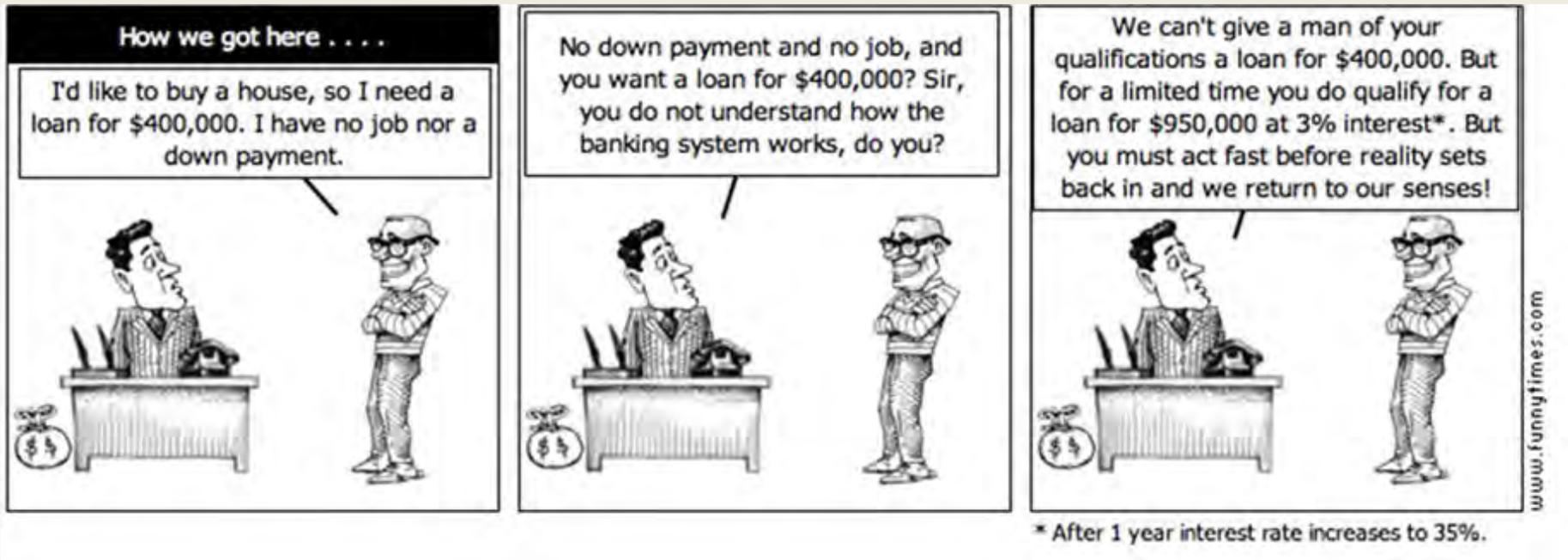
DODD-FRANK ACT OVERVIEW

- The most significant financial reform law (849 printed pages) since the Great-depression legislation: <http://1.usa.gov/DFA-law>
- 16 titles to address different factors contributing to the crisis
- Title XIV (Mortgage Reform and Anti-Predatory Lending Act) makes significant changes to residential mortgage lending
- Consumer Financial Protection Bureau (CFPB) must issue implementing regulations for Title XIV's provisions, which must become effective no later than Jan. 21, 2014

Title XIV of the Dodd-Frank Act

MORTGAGE REFORM AND ANTI-PREDATORY LENDING ACT

TITLE XIV MORTGAGE PROTECTIONS: RESPONSE TO RISKY PRACTICES



REGISTRATION OR LICENSING OF MORTGAGE LOAN ORIGINATORS

- Loan originators cannot originate mortgage loans unless licensed (non-banks) or registered (banks) in SAFE Act national registry and must include unique originator identification number on all loans
- SAFE Act licensing/registration requirements include criminal check, credit report check, MLO test, continuing education, and database of state disciplinary actions that public can access without charge
- Originators with felony convictions in last 7 years, or convictions at *any* time for crimes involving fraud, dishonesty, breach of trust, or money laundering, cannot be licensed or registered

LOAN ORIGINATOR COMPENSATION (LOC)

- Federal Reserve Board issued LOC rules effective April 2011, which will be replaced by Dodd-Frank Act requirements, which are similar but contain additional protections
- Under Dodd-Frank Act, LOC cannot vary with loan terms and conditions (except loan amount)
- If consumer compensates loan originator, originator cannot receive compensation from creditor or anyone else
- Creditor can pay originator's compensation only if:
 - consumer does not pay it
 - consumer does not pay discount or origination points or fees except third party charges not retained by the MO, creditor, or affiliate
 - but CFPB may provide exemptions if they are in the public interest

ANTI-STEERING AND UDAAP PROHIBITIONS

Anti-steering provisions

CFPB must issue rules prohibiting originators from:

- steering consumer to a mortgage consumer cannot reasonably repay
- steering consumer from a Qualified Mortgage (discussed later) to a non-qualified mortgage
- steering consumer to mortgage with predatory characteristics such as equity stripping, abusive terms, or excessive fees
- engaging in abusive or unfair lending practices that promote disparities among consumers of equal credit worthiness but of different race, ethnicity, gender, or age
- mischaracterizing consumer's credit history, appraised value of property, or mortgage loans available to a consumer

UDAAP mortgage rulemaking

CFPB can issue regulations to ban unfair, deceptive, abusive, or predatory acts or practices for mortgages or issue rules needed to ensure that responsible, affordable mortgage credit remains available

RESIDENTIAL MORTGAGES: ABILITY-TO-REPAY REQUIREMENT

- Creditors must make a reasonable and good faith determination based on verified and documented information that consumer has reasonable ability to repay mortgage, including applicable taxes, insurance, and assessments
- Exemption provided for ***open-end credit plans (e.g. HELOCs), timeshares, reverse mortgages, and temporary loans (12 months or shorter)***
- Federal Reserve Board issued rulemaking proposal in April 2011, with 4 compliance options, which CFPB will make final

RESIDENTIAL MORTGAGES: ABILITY-TO-REPAY REQUIREMENT

Compliance Option 1

Repayment ability: creditor must examine and document 8 factors

1. Current or reasonably expected income or assets
2. Current employment status
3. Monthly loan payment
4. Monthly payment on any simultaneous loan
5. Monthly payment for mortgage-related obligations
6. Current debt obligations
7. Monthly debt-to-income ratio, or residual income
8. Credit history

RESIDENTIAL MORTGAGES: ABILITY-TO-REPAY REQUIREMENT

Compliance Option 1

- No limits on risky features (such as negative amortization), loan terms, and points and fees
- Underwriting of the mortgage payment must be based on:
 - Fully indexed rate or introductory rate, whichever is greater; and
 - Monthly equal payments that amortize the loan amount
- Special calculations for negative amortization, interest-only and balloon loans
 - Higher-priced balloon loan – use balloon payment
 - Balloon loan not higher-priced – use maximum payment during first 5 years after consummation

RESIDENTIAL MORTGAGES: ABILITY-TO-REPAY REQUIREMENT

Compliance Option 2: Qualified Mortgage

Safe Harbor Requirements

- Loan does not contain negative amortization, interest-only payments, or balloon payments;
- Term does not exceed 30 years;
- Points and fees cannot exceed 3% of the loan amount
- Income or assets are considered and verified;
- Mortgage underwriting
 - Based on maximum rate in the first 5 years after consummation
 - Payment schedule fully amortizes the loan
- Underwriting generally
 - Consider and verify income or assets
 - Consider mortgage-related obligations

RESIDENTIAL MORTGAGES: ABILITY-TO-REPAY REQUIREMENT

Compliance Option 2: Qualified Mortgage

Presumption of Compliance

- Same as QM safe harbor plus creditor must consider and verify—
 - Employment status
 - Simultaneous loan
 - Current debt obligations
 - DTI or residual income
 - Credit history
- Board solicited comment on whether to adopt “safe harbor” or “presumption of compliance” requirements in final rule
- Compliance with “safe harbor” provides stronger legal protection to creditors than compliance with “presumption of compliance”

ABILITY-TO-REPAY STANDARD VS. QUALIFIED MORTGAGE

	General Ability-to-Repay Standard	QM (safe harbor)	QM (presumption of compliance)
Risky Features	No requirement	No negative amortization, interest only, balloon payments	No negative amortization, interest only, balloon payments
Term	No requirement	May not exceed 30 years	May not exceed 30 years
Points & Fees	No requirement	May not exceed 3% of loan amount for loans of \$75,000 or more	May not exceed 3% of loan amount for loans of \$75,000 or more
Mortgage Underwriting	Fully indexed rate or introductory rate, whichever is greater	Max. interest rate in first 5 years	Max. interest rate in first 5 years
Mortgage-Related Obligations	Consider and verify	Consider	Consider
Income or Assets	Consider and verify	Consider and verify	Consider and verify
Employment Status	Consider and verify	No requirement	Consider and verify
Simultaneous Liens	Consider and verify	No requirement	Consider and verify
Current Debt Obligations	Consider and verify	No requirement	Consider and verify
DTI or RI	Consider and verify	No requirement	Consider and verify
Credit History	Consider and verify	No requirement	Consider and verify

RESIDENTIAL MORTGAGES: ABILITY-TO-REPAY REQUIREMENT

Compliance Option 3: Balloon-Payment Qualified Mortgage

For community banks. Same requirements as QM, except—

- Limited to creditors with assets of \$2 billion or less operating in rural or underserved areas,
- Risky features: interest only and balloon payments permitted
- Minimum loan term: loan must have a term of 5 years or greater
- Mortgage underwriting
 - All of the scheduled payments, except the balloon payment
 - Amortization period cannot exceed 30 years
- Creditor must hold loans in portfolio

RESIDENTIAL MORTGAGES: ABILITY-TO-REPAY REQUIREMENT

Compliance Option 4

Refinancing Non-standard Mortgage into Standard Loan

- Exempt from income/asset verification
- Non-standard mortgage:
 - ARM with an introductory fixed interest rate for a period of year
 - Interest-only loan
 - Negative amortization loan
- Standard mortgage:
 - No negative amortization, interest only payments, balloon payments
 - Loan term may not exceed 40 years
 - Limits on points and fee
 - Interest rate is fixed for the first 5 years after consummation
 - Limits on use of loan proceeds
 - Mortgage underwriting based on maximum interest rate in first 5 years

RESIDENTIAL MORTGAGES: ABILITY-TO-REPAY REQUIREMENT

Other mortgage protections in Board's proposal:

- Significant limits on prepayment penalties
- Prepayment penalties only available for prime, fixed-rate QMs
- Prepayment penalties may not exceed:
 - in 1st year, 3% of the outstanding loan balance prepaid
 - In 2nd year, 2% of the outstanding loan balance prepaid
 - In 3rd year, 1% of the outstanding loan balance prepaid
- No prepayment penalty after the third year
- Creditor must offer loan without a prepayment penalty
- Expansion of record retention rules
- Prohibition on evasion through open-end credit

OTHER TITLE XIV MORTGAGE PROTECTIONS

- Bans mandatory arbitration clauses
- Requires mandatory escrow of insurance and taxes for first-lien residential mortgages for at least first 5 years unless:
 - Borrower is no longer required to have PMI
 - Borrower becomes delinquent
 - Borrower has not complied with credit agreement
 - Mortgage is terminated
- Requires counseling for high-cost mortgages and lowers high-cost triggers
- Establishes appraiser independence requirements

OTHER TITLE XIV MORTGAGE PROTECTIONS

- Consumers in state with anti-deficiency provision must receive notice from creditor
- Creditors must provide additional disclosures for negative-amortization loans
- Creditors must provide notice 6 months before change for hybrid loans
- New loan-closing disclosures, including wholesale rate of funds, originator compensation, and interest paid over loan as percent of principal

CREDIT RISK RETENTION AND QUALIFIED RESIDENTIAL MORTGAGE (QRM)

- Securitizers must retain 5% of securitized product (skin in the game) unless exemption applies
- For mortgages, 5% requirement does not apply to QRMs
- Six agencies issued proposed QRM definition in March 2011
- Under proposal, risk retention requirement does **not** apply to securitization of federally insured or guaranteed loans (such as FHA and VA loans), to ABS issued or guaranteed by a State or political subdivision, and to Fannie/Freddie loans while these GSEs are in receivership

DIFFERENCES BETWEEN QRM AND QM

	Qualified Residential Mortgage (risk-retention rules)	Qualified Mortgage (safe harbor ability-to-pay rules)
Risky Features	no negative amortization, interest only payments, balloon payments, subordinate liens for purchases, prepayment penalties	no negative amortization, interest only payments, balloon payments
Term	may not exceed 30 years	may not exceed 30 years
Points & Fees	may not exceed 3% of the total loan amount	may not exceed 3% of the total loan amount for loans of \$75,000 or more, exceptions for smaller loans
Underwriting	based on maximum interest rate during first 5 years	based on maximum interest rate during first 5 years
Mortgage-Related Obligations	consider and verify	consider
Income or Assets	consider and verify	consider and verify
Employment Status	consider and verify	no specific requirement
Simultaneous Liens	consider and verify	no specific requirement
Current Debt Obligations	consider and verify	no specific requirement
DTI or RI	DTI: front end ratio of 28, back end ratio of 36	no specific requirement
Credit History	current on all debts; no 60-day delinquencies in past 2 years; no bankruptcies or foreclosures in past 3 years	no specific requirement
LTV	purchase: 80%; refinancing: 70-75%	no specific requirement
Servicing	commitment in mortgage transaction documents	no specific requirement
Down payment	20% for purchase transaction	no specific requirement

TITLE XIV MORTGAGE SERVICER REQUIREMENTS

- Dodd-Frank Act shortens deadline for servicers to respond to a RESPA qualified written request (QWR) from a borrower about loan servicing issue
- Currently, servicers have 20 days to acknowledge receipt of QWR and 60 days to take action.
- Under Dodd-Frank Act, servicer has 5 business days to acknowledge receipt of a QWR, 30 business days to respond, and optional 15-day extension if notice is provided to borrower
- During investigation, servicer cannot furnish negative information to credit bureaus about a disputed payment

TITLE XIV MORTGAGE SERVICER REQUIREMENTS

- Servicer must provide accurate payoff balance within 7 business days of receiving request
- Servicer must credit payment on date of receipt unless delay does not result in charge or fee to consumer or negative reporting to credit bureaus
- Escrows must be refunded to borrower within 20 business days of loan payoff

TITLE XIV SERVICER REQUIREMENTS FOR FORCED-PLACEMENT INSURANCE

- Must have a reasonable based for forced-placement insurance
- Two notices must be sent to borrower before imposing forced-placement insurance
 - First notice:
 - inform borrower of duty to maintain hazard insurance
 - inform borrower servicer has no evidence of coverage
 - identify procedures borrower can use to demonstrate coverage
 - threaten to force-place if borrower does not timely demonstrate insurance
 - Second notice:
 - Same items as first notice
 - Send at least 30 days after mailing of first written notice
- ***Servicer may force place insurance if coverage is not established 15 days after second notice mailed***

TITLE XIV SERVICER REQUIREMENTS FOR FORCED-PLACEMENT INSURANCE

- Methods for borrower to establish insurance coverage:
 - Any reasonable written confirmation
 - Policy number with contact information for company/agent
- Servicer must terminate force-placed insurance within 15 days after receiving confirmation of insurance
- Servicer must return all premiums and fees during duplicative coverage period

ENFORCEMENT OF MORTGAGE PROVISIONS

- Nonbank mortgage originators, servicers, and providers of loan modification and foreclosure relief services are— for the first time— subject to examination by the CFPB for compliance with federal consumer protection laws
- Banks with assets under \$10 billion are subject to compliance examinations by their primary federal regulator
- Banks with assets over \$10 billion are subject to compliance examinations by the CFPB

CFPB SOLICITS COMMENTS FOR MODEL MONTHLY MORTGAGE STATEMENT FORM

Springside Mortgage

DRAFT

Mortgage Statement

Statement Date: 3/20/2012

Adam and Mary Jones
4700 Oak Ridge Ln
Bethesda, MD 20814

Account Number	1234567
Payment Due Date	4/1/2012
Amount Due	\$1,829.71
<i>If payment is received after 4/15/12, pay \$1,989.71</i>	

Account Information	
Property Address	4700 Oak Ridge Ln Bethesda, MD 20814
Outstanding Principal	\$264,776.43
Maturity Date	September 2039
Interest Rate (Until October 2012)	4.75%
Prepayment Penalty (Until September 2014)	\$3,500.00

Current Payment Due	
Principal	\$386.46
Interest	\$1,048.07
Escrow (for Taxes and Insurance)	\$235.18
Regular Monthly Payment	\$1,669.71
Total Fees Charged	\$160.00
Total Amount Due	\$1,829.71

Contact Us	
By Phone:	1-800-555-1234
Online:	www.springsidemortgage.com
<i>See back for mailing addresses</i>	

Transaction Activity (2/20/2012 – 3/19/2012)			
Date	Description	Charges	Payments
3/16/12	Late Fee (charged because payment was received after 3/15/2012)	\$160.00	
3/17/12	Payment Received – Thank you		\$1,669.71

Past Payments Breakdown		
	Paid Last Month	Paid Year to Date
Principal	\$384.93	\$1,150.25
Interest	\$1,049.60	\$3,153.34
Escrow (Taxes and Insurance)	\$235.18	\$705.54
Fees	\$0.00	\$0.00
Total	\$1,669.71	\$5,009.13

Important Messages
If You Are Experiencing Financial Difficulty: If you would like mortgage counseling or assistance, you can find a list of counselors in your area on the U.S. Department of Housing and Urban Development's website at www.hud.gov . On the back of this page, we have also provided contact information for three state- or federally-approved counseling programs in your area.

CFPB'S PROTOTYPE COMBINED RESPA/TILA DISCLOSURE FORM

Settlement Disclosure

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

SETTLEMENT INFORMATION

DATE 1/24/2012
AGENT ABC Settlement
FILE # 01234
PROPERTY 456 Avenue A
 Anytown, PA 12345
SALE PRICE \$123,500

TRANSACTION INFORMATION

BORROWER James White and Jane Johnson
 123 Anywhere Street, Apt 678
 Anytown, PA 12345
SELLER John Wilson
 123 Somewhere Drive
 Anytown, PA 12345
LENDER Hemlock Bank

LOAN INFORMATION

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT Fixed Rate
LOAN TYPE Conventional FHA
 VA
MSC 56789
LOANID# 1330172608

Loan Terms

		Can this amount increase after closing?
Loan Amount	\$109,805.63	NO
Interest Rate	4.375%	NO
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$548.25	NO
		Does the loan have these features?
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments

Payment Calculation	Years 1-7	Years 8-30
Principal & Interest	\$548.25	\$548.25
Mortgage Insurance	+ 55.82	—
Estimated Escrow <i>Amount Can Increase Over Time</i>	+ 422.94	+ 422.94
Estimated Total Monthly Payment	\$1,027.01	\$971.19

Information about Escrow for Taxes, Insurance & Assessments
 Amount Can Increase Over Time
 See Details on Page 4

Escrow. Your escrow payment covers the taxes, insurance & assessments listed in Section F on page 2. You must pay for other property costs separately.
 No Escrow. You must pay all of your taxes, insurance & assessments separately from your loan payments.

Closing Costs

Cash to Close	\$27,625.00	Closing Costs include \$5,519.53 in Settlement Fees. See details on page 2.
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SETTLEMENT DISCLOSURE

PAGE 1 OF 3

Closing Cost Details

	Paid at Closing	Borrower Paid Paid Before Closing	Financed in Loan Am.	Seller Paid Paid at Closing	Seller Paid Paid Before Closing	Paid by Others
SETTLEMENT FEES						
A. Origination Charges		\$2,810.90				
275 Pointing		\$960.90				
Underwriting Fee			\$800.00			
Processing Fee			\$300.00			
Verification Fee			\$75.00			
Raw Lock Fee			\$25,500			
Doc. Review Fee			\$150.00			
B. Services Borrower Did Not Shop For		\$2,580.63				
Credit Report Fee			\$30.00			
Appraisal Fee			\$30.00			
Document Preparation Fee		\$936.00				
Tax Status Research Fee			\$5,600			
Flood Determination Fee			\$35.00			
Tax Monitoring Fee			\$1,500			
Flood Monitoring Fee			\$1,000			
Lender's Attorney			\$33,500			
Title - Closing Protection Letter		\$75.00				
Appraisal Mgmt. Co. Fee			\$100.00			
Title - PA Inclusive Title Fee			\$1,076.63			
Lender Coverage \$109,805.63 / Owner Coverage \$123,500						
Title - Settlement Agent Fee			\$31,000			
Title - Courier Fee			\$9,200			
Survey Fee			\$160.00			
C. Services Borrower Did Shop For		\$125.00				
Pest Inspection Fee			\$125.00			
Settlement Fees (A + B + C)	\$1,370.90	\$0	\$4,148.63			
Lender Credits						
TOTAL BORROWER-PAID SETTLEMENT FEES		\$5,519.53				
SETTLEMENT COSTS						
D. Taxes and Other Government Fees		\$2,890.00				
Commonwealth of PA Transfer Tax		\$617.50			\$617.50	
City of Philadelphia Transfer Tax		\$1,852.50			\$1,852.50	
Recording Fee		\$90.00				
Deed: \$200.00 Mortgage: \$170.00						
E. Prepays		\$1,936.38				
Mortgage Insurance Premium (_ mo)						
Homeowner's Insurance Premium (12 mo.) to XYZ Ins. Co.			\$682.00			
Flood Insurance Premium (12 mo.) to Flood Safe Co.		\$1,160.00				
Property Taxes (_ mo)						
Prepaid Interest \$13.34 perday from 1/24/12 to 1/31/12		\$99.38				
F. Initial Escrow Payment at Closing		\$846.82				
Mortgage Insurance						
Homeowner's Insurance		\$68.83				
Property Taxes		\$269.44				
Flood Insurance		\$96.67				
HOA/Kondo/Co-op						
Aggregate Adjustment		-\$42.00				
G. Other Costs		\$2,471.31				
\$3,087.50 to Reliable Realty Co./ \$9,087.50 to Realty Pros LLC					\$6,175.00	
Real Estate Broker Administration Fee to Reliable Realty Co.		\$200.00				
Structural Inspection Fee		\$525.00				
Inspection Fee		\$246.00				
HOA Processing Fee		\$500.00				
Home Warranty		\$211.31				
Mobile Signing Agent		\$130.00				
Borrower Attorney		\$840.00				
Settlement Costs (D + E + F + G)	\$7,411.51	\$0	\$682.00			
TOTAL BORROWER-PAID SETTLEMENT COSTS		\$8,096.51				
H. TOTAL CLOSING COSTS (Settlement Fees + Settlement Costs)	\$8,782.41	\$0	\$4,830.63	\$6,415.00		
TOTAL BORROWER-PAID CLOSING COSTS		\$13,613.04				

SETTLEMENT DISCLOSURE

PAGE 2 OF 3

CFPB'S PROTOTYPE COMBINED MORTGAGE LOAN DISCLOSURE FORM (CONT.)

What Changed?

CALCULATING CASH TO CLOSE	Estimate	Final
Settlement Fees	\$5,170.00	\$5,519.53
Settlement Costs	\$4,406.37	\$8,099.51
Down Payment/Funds from Borrower	\$18,525.00	\$18,525.00
Deposit	-\$3,000.00	-\$3,000.00
Cash to Borrower	\$0	\$0
Seller Credits	\$0	\$0
Other Credits and Adjustments	\$0	\$3,317.59
Closing Costs to be Financed	\$0	-\$4,890.63
Cash to Close	\$25,101.37	\$27,625.00

Summaries of Transactions

BORROWER'S TRANSACTION

I. Due from Borrower at Closing	\$140,430.63
Closing Costs Paid at Closing by Borrower (H)	\$8,782.41
Closing Costs Financed in Loan Amount (H)	\$4,890.63
Sale price of property	\$123,900.00
Sale price of any personal property included in sale	

Other Credits & Adjustments

Items Prepaid by Seller that are Due from Borrower	
City/town taxes 1/24/12 to 12/31/12	\$3,090.09
County taxes to	
Assessments to	
HOA dues 1/24/12 to 3/31/12 (quarterly)	\$287.50

J. Paid Already or on Behalf of Borrower at Closing	\$112,805.63
Deposit	\$3,000.00
Principal amount of borrower's new loan	\$109,805.63
Existing loan(s) assumed or taken subject to	

Other Credits & Adjustments

Adjustments for Items Unpaid by Seller

City/town taxes to	
County taxes to	
Assessments to	

CALCULATION

Total Due from Borrower at Closing (I)	\$140,430.63
Total Paid Already or on Behalf of Borrower at Closing (J)	-\$112,805.63
Cash to Close <input checked="" type="checkbox"/> From <input type="checkbox"/> To Borrower	\$27,625.00

INCREASES OVER LIMITS	Estimate	Final	Over Limit?
Costs That Could Not Increase			
A. Origination Charges	\$2,769.00	\$2,810.90	YES \$41.90
D. Transfer Taxes	\$2,470.00	\$2,470.00	NO
Costs That Could Not Increase by More Than 10% in Total			
B. Services You Did Not Shop For	\$2,276.00	\$2,583.63	
D. Recording Fees	\$370.00	\$370.00	YES \$43.03
TOTAL	\$2,646.00	\$2,953.63	

INTEREST RATE CHANGES	Estimate	Final
Interest rate	4.375%	4.375%
Can interest rate change after closing?	NO	NO
Did adjustable rate terms change?		N/A

SELLER'S TRANSACTION

K. Due to Seller at Closing	\$126,817.59
Sale price of property	\$123,900.00
Sale price of any personal property included in sale	

Items Prepaid by Seller that are Due from Borrower	
City/town taxes 1/24/12 to 12/31/12	\$3,090.09
County taxes to	
Assessments to	
HOA dues 1/24/12 to 3/31/12 (quarterly)	\$287.50

L. Due from Seller at Closing	\$87,807.87
Excess deposit	
Closing costs paid at closing by seller (H)	\$8,645.00
Existing loan(s) assumed or taken subject to	
Payoff of first mortgage loan	\$79,162.87
Payoff of second mortgage loan	

Adjustments for Items Unpaid by Seller

City/town taxes to	
County taxes to	
Assessments to	

CALCULATION

Total Due to Seller at Closing (K)	\$126,817.59
Total Due from Seller at Closing (L)	-\$87,807.87
Cash <input type="checkbox"/> From <input checked="" type="checkbox"/> To Seller	\$39,009.72

Questions?