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THE MORTGAGE RULES READINESS GUIDE: IS YOUR INSTITUTION READY?

Among the eight final rules affecting regulation of mortgage lending adopted by the Consumer Financial Protection Bureau (CFPB) were important amendments to several existing regulations. This article focuses on some changes affecting Regulation Z, the Truth in Lending Act (TILA) implementing regulations.

A Brief History of Regulation Z

TILA became effective on July 1, 1969, with one of its goals to assure proper disclosure to borrowers of all terms, costs, and fees associated with consumer borrowing. The implementing regulations for TILA were collectively codified under Regulation Z of the Code of Federal Regulations (CFR) and administered under the authority of the Federal Reserve Board. However, as of July 21, 2011, the rule-making authority for TILA was, with a few exceptions, transferred to the CFPB as mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank").

Impact for Mortgage Lenders

While the various subparts of Regulation Z dealt with matters of revolving credit, open-end credit, and other scenarios, Subparts C and E focused on mortgage transactions where the credit being extended was secured by the borrower's principal dwelling.

Getting Ready for January 10, 2014

Regulation Z prohibits a lender from making a mortgage loan without regard to the consumer's ability to repay the loan, thus implementing Sections 1411 and 1412 of Dodd-Frank, which require creditors to make a reasonable, good faith determination of a consumer's ability to repay any consumer debt secured by a dwelling. The final rule also implements Section 1414 of Dodd-Frank, which limits prepayment penalties. Finally, the new rule requires creditors to retain evidence of compliance with the rule for three years after a covered loan is consummated.

New Escrow Requirements

The new rule requires lenders to establish escrow accounts for higher-priced mortgage loans secured by a first lien on a principal dwelling. The rule implements statutory Dodd-Frank provisions that lengthen the time for which a mandatory escrow account for such loans must be maintained. The rule also exempts certain transactions from the statute's escrow requirement. The escrow requirements went into effect on June 1, 2013. Is your institution in compliance?

Will Your Bank Need a Social Worker on Staff?

Your institution was licensed as a financial services provider and not as a social worker. Nevertheless, if you fail to offer High-Cost Mortgage Counseling or Homeownership Counseling, you may run afoul of the new rules. Greenpoint Legal can help you navigate the new Regulation Z to keep your organization in compliance and minimize the risk to your bottom line. Contact our Financial Services Compliance experts today.

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