

Shop Before You Owe

CFPB's Objectives

- **Empower Borrowers** to make informed decisions by providing key details about loan terms, estimated closing costs and cash needed to close in a single document.
- **Streamline the application experience** by clearly defining what constitutes an application.
- **Close with confidence** by removing the pressure of signing without understanding.

What is not changing?

Definition of a Loan Application

The submission of the following six (6) elements still constitute an application:

1. Borrower's name
2. Borrower's income
3. Borrower's social security number (to obtain a credit report)
4. Property address (if known; not dependent upon receipt of purchase contract)
5. Estimate of the property value
6. Desired loan amount

What is changing?

Penalties:



- The CFPB has enforcement jurisdiction for both TILA and RESPA, which includes the ability to impose penalties. Depending on the circumstances, penalties could **include \$5,000 per day for a single violation, \$25,000 per day for violations shown to be reckless, and \$1 million per day for committing violations knowingly.**

What is changing?

Pre-Qualification Documentation Clarification

- Consumer cannot be required to provide documentation to support a pre-qual.
 - However, consumer can voluntarily provide the documentation we need to issue a pre-qual
- Lender can obtain information but cannot require documentation from the borrower before the Loan Estimate is issued and MMCD has received the Intent to Proceed (ITP)

What is changing?

New Disclosures

- **Loan Estimate (LE)** will replace initial Truth-In-Lending Disclosure (TIL) and Good Faith Estimate (GFE)
- **Closing Disclosure (CD)** will replace final Truth-In-Lending Disclosure (TIL) and final HUD-1

What is changing?

Timeline for on-time delivery of both disclosures

- **Loan Estimate (LE)**
 - 3 days from application
 - Consumer has 10 days to sign Intent to Proceed (ITP)
 - Must be issued at least 1 day before Closing Disclosure (CD)
- **Closing Disclosure (CD)**
 - Must be received 3 days prior to loan consummation (defined by state)

What is changing?

Loan Comparisons:

- In 5 Years: Total paid in principal, interest, mortgage insurance, and loan costs. Amount of principal paid off.
- Annual Percentage Rate (APR): Costs over the loan term expressed as a rate. This is not the interest rate.
- Total Interest Percentage (TIP): The total amount of interest paid over the loan term as a percentage of the loan amount.

Comparisons	Use these measures to compare this loan with other loans.	
In 5 Years	\$70,084	Total you will have paid in principal, interest, mortgage insurance, and loan costs.
	\$24,727	Principal you will have paid off.
Annual Percentage Rate (APR)	3.625 %	Your costs over the loan term expressed as a rate. This is not your interest rate.
Total Interest Percentage (TIP)	61.660 %	The total amount of interest that you will pay over the loan term as a percentage of your loan amount.

What is changing?

Intent to Proceed (ITP)

- No processing activities can take place until the borrowers receive Loan Estimate (LE) and formally notify the lender of their intent to proceed with the application.
- No fee may be collected other than for a credit report before Intent to Proceed (ITP) is received.

Changed Circumstances that permit revisions to the Loan Estimate (LE)

- Rate lock after initial Loan Estimate (LE) changes points or lender credit
- Borrower requests changes that change loan terms and costs
- Loan Estimate (LE) expires because borrower does not sign Intent to Proceed (ITP) within 10 days
- New information results in changes to closing costs
- A revised Loan Estimate (LE) must be issued within 3 days of learning of the change

Importance of getting Loan Estimate (LE) right

- Loan Estimate (LE) figures must be made in good faith and consistent with the best information reasonably available to the lender at the time disclosed. Lenders cannot revise the Loan Estimate (LE) due to the discovery of technical errors, miscalculations or underestimations of charges

Revisions to the Closing Disclosure

Some changes to the Closing Disclosure (CD) will require another 3 day waiting period:

- Disclosed APR INCREASES by more than .125% is the most likely cause of a new waiting period (especially with smaller loan amounts)
- Loan product changes: For example, changes to the:
 - **Loan Term** (example: from a 30-year loan to a 15-year loan)
 - **Loan Type** (example: from an ARM to a Fixed-rate loan or from a 5/1 ARM to a 3/1 ARM)
 - **Loan-to-Value** (example: addition of Mortgage Insurance due to a change in down payment)
- Pre-payment penalty is added or removed (This is a rare event, as most of our products do not carry a pre-payment penalty.)

Waiting period applies even if Borrower requests the change



Important Communications with Realtor

- Importance of understanding the Pre-Qual process – lender cannot require upfront documentation. Borrower must voluntarily give lender the documents.
- Realtor must understand the 3 day Loan Estimate (LE) timing and understand that we cannot do anything prior to borrower's receipt of Loan Estimate (LE) and signing of Intent to Proceed (ITP).
- Set seller/buyer distribution of the fees/charges at the beginning in order to eliminate problems with Loan Estimate (LE).
- Be prepared to provide a property description, including what kind of inspections are going to be needed and the existence of any master and/or sub association.
- Select the closing agent carefully. Inaccurate reporting of fees and charges up front will delay the COE and possibly cost them money to cover omissions.

Realtor Message: "Our relationship needs to be closer today. We need to jointly manage consumer expectations."

