

# CFPB's Know Before You Owe— Say Hello to TRID

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# TRID

- TRID is the **TILA / RESPA Integrated Disclosure Rule**. An acronym of other acronyms.....so let's break this down a little further.
  - TILA is the Truth in Lending Act
  - RESPA is the Real Estate Settlement Procedures Act.
  - The CFPB modified both rules in its TRID final ruling.

# The financial crisis of 2007-2009 ...

- From 2007-09, the economy suffered the worst crisis since the Depression.
- At the heart of the crisis were mortgage-backed securities.
- The crisis prompted the Wall Street Reform and Consumer Protection Act (2010), known as Dodd-Frank.

# Dodd-Frank Act (2010)

- Affects the entire financial services industry and is the most sweeping change to financial regulation since the 1930s.
- Created Consumer Financial Protection Bureau (CFPB) within the Federal Reserve, intended to protect consumers.

# CFPB'S Marching Orders

- Instructions from Congress to the CFPB:
  - Crack down on scams aimed at consumers
  - Ensure terms of financial documents are easily understood by the consumer
  - Focus on both banks and non-banks (payday lenders etc.)
  - Examine existing rules and ensure they are not in conflict with each other

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# Truth in Lending Act (TILA)

- Implemented by Federal Reserve Board
- Created Truth-in-Lending (TIL) Statements-Initial and Final Disclosures
- Discloses the following:
  - Cost of credit
  - Repayment terms of mortgage
  - Annual percentage rate (APR)
  - Loan rate
  - Fees amortized over expected life of loan

# Real Estate Settlement Procedures Act (RESPA)

- Implemented by Department of Housing and Urban Development (HUD)
- Created Good Faith Estimate (GFE) and HUD-1 Settlement Statement
- Standardized disclosures of closing costs
- Includes costs associated with mortgages
- HUD-1 and GFE previously modified in 2010



# Out with the Old.....

- Dodd-Frank Act directed the CFPB to integrate the disclosures under TILA and RESPA
- Effective Date is October 3, 2015

# Old Disclosure Requirements

- For over 30 years, Federal Law required lenders to provide
  - Two different disclosure forms to consumers at application
    - GFE
    - Initial TIL
  - Two different disclosure forms to consumers before closing
    - HUD
    - Final TIL

- 1. Loan Estimate (LE) Replaces Good Faith Estimate (GFE) and Initial Truth in Lending (TIL) Disclosure**
- 2. Closing Disclosure (CD) Replaces HUD-1 and TIL Final Disclosure**



# TRID Disclosure Required

- Applies to most consumer credit transactions secured by real estate.
- Excludes:
  - Home Equity lines of credit and Reverse mortgages
  - Mortgages secured by a mobile home or dwelling not attached to land
  - No-interest second mortgages for down payment assistance, property rehabilitation, energy programs and foreclosure avoidance

# What is a Mortgage Application?

- Submission of consumer's financial information for purposes of obtaining an extension of credit.
- Once You Have These 6 items You Have an Application:
  1. Consumer's name
  2. Income
  3. Social security number to obtain a credit report
  4. Property address
  5. Estimated value of property
  6. Mortgage loan amount sought

# Application

- Effective October 3, 2015, for any application received on or after that date, prohibited activities include:
  - Imposing fee on consumer before they receive the Loan Estimate (LE)
  - Providing written estimates specific to consumer before they receive LE
  - Requiring the submission of additional documentation verifying information prior to providing LE

# Loan Estimate (LE)

- Must contain a good faith estimate of credit costs and transaction terms. Unknown information must be the best information reasonably available at time of disclosure based on due diligence.
- Creditor shall deliver or place LE in the mail not later than 3 business days after receiving the application.
- Creditor shall deliver or place LE in the mail not later than the 7<sup>th</sup> business day before consummation.

# Loan Estimate (LE)

- Consumer is considered to have received the Loan Estimate 3 business days after delivered or placed in the mail.
- Consumer can waive the 7 day waiting period for a bona fide financial emergency only.
- Shopping occurs where the consumer is permitted to select the provider of services.
  - Creditor must disclose the services for which the consumer can shop.
  - Creditor must provide a separate list identifying available providers for the service.



# Business Day

For purposes of providing Loan Estimate, or any revised Loan Estimate, business day is a day on which creditor's offices are open to the public for carrying out "substantially all of its business functions"-- includes availability of personnel to make loan disbursements, to open new accounts, and to handle credit transaction inquiries.

# Loan Estimate (LE)

- No fees may be collected prior to disclosure and intent to proceed from consumer except bona fide and reasonable fee for credit report.
- Creditor is prohibited from requiring documentation to verify information prior to disclosure.

# Good Faith Loan Estimate

Good Faith: Estimate of closing cost is made in good faith if the charge paid or imposed on the consumer does not exceed the amount originally disclosed. Estimate of third party charges and recording fees is in good faith if:

- The aggregate amount of charges for those fees paid or imposed on the consumer does not exceed the aggregate amount disclosed by more than 10%.
- The charge is not paid to the creditor or an affiliate.
- The creditor permits the consumer to shop.

# Loan Estimate (LE)

The following charges are disclosed in good faith, if based on the best information reasonably available, even when the amount paid exceeds the amount disclosed:

- Prepaid interest
- Property insurance premiums
- Amounts placed in escrow, impound, reserve or similar
- Charges paid to 3rd party selected by consumer, not on the list provided

# Loan Estimate (LE)

Revised disclosures may be provided if the revision is due to any of the following:

- Changed circumstances cause estimated charges to increase; or the 3<sup>rd</sup> party services and recording fees, in aggregate, increase by more than 10%
- Changed circumstances affect the consumer's creditworthiness or value of the property
- Revisions requested by the consumer
- Changes due to interest rate locks

# Loan Estimate (LE)

“Changed circumstances” means any of the following:

- Extraordinary event beyond the control of any interested party or other unexpected event specific to the consumer or transaction
- Information specific to the consumer or transaction that the creditor relied on was inaccurate or changed after the disclosures were provided
- New information specific to the consumer or transaction that the creditor did NOT rely on when providing the original disclosure

# Loan Estimate (LE)

## Revised Loan Estimate Disclosure Timing:

- Must be provided within 3 business days of receiving information establishing changed circumstance
- Interest rate lock – Revised disclosure within 3 business days with revised interest rate dependent charges
- Consumer must receive not later than 4 business days prior to consummation
- Cannot be provided on or after the date the Closing Disclosure is provided

# New Lending Disclosure Timeline

Effective for loan applications received after TRID implementation | Home Loans | 2 Mandatory Disclosures





# Closing Disclosure (CD)

- Creditor shall ensure the consumer receives CD no later than 3 business days before consummation (closing).
- Consumer is considered to have received CD 3 business days after delivered or placed in mail.
- Waiting period may be waived for bona fide personal financial emergency.
- Settlement agent may provide, but creditor remains responsible.
- If CD becomes inaccurate, creditor shall provide corrected CD to consumer at or before consummation. Consumer still has right to inspect one business day prior to consummation.

# Closing Disclosure changes

The following changes require the creditor to issue a new Closing Disclosure no later than 3 business days before consummation:

- APR increases by more than  $\frac{1}{8}$  of 1%;
- Loan product changes; or
- Prepayment penalty is added.

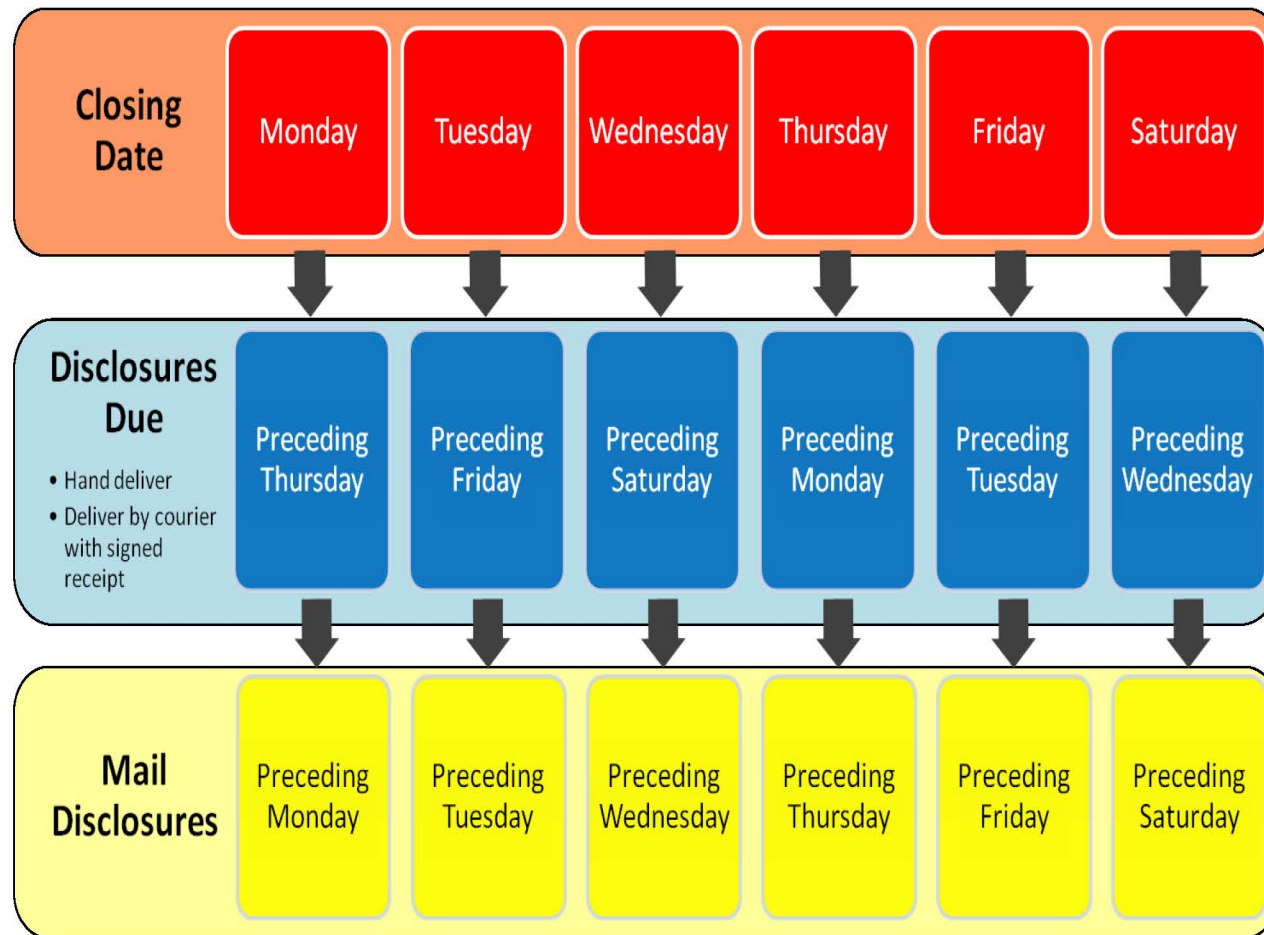
# Business Day / Consummation

Business Day: For all other purposes, all calendar days except Sundays and legal public holidays.

New Year's Day, Martin Luther King Day, Washington's birthday, Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans Day, Thanksgiving, Christmas

Consummation: Closing Date.

## Three-Day Closing Disclosure Rule



**Note:** If a federal holiday falls in the three-day period, add a day for disclosure delivery.

The three-day period is measured by days, not hours. Thus, disclosures must be delivered three days before closing, and not 72 hours prior to closing.

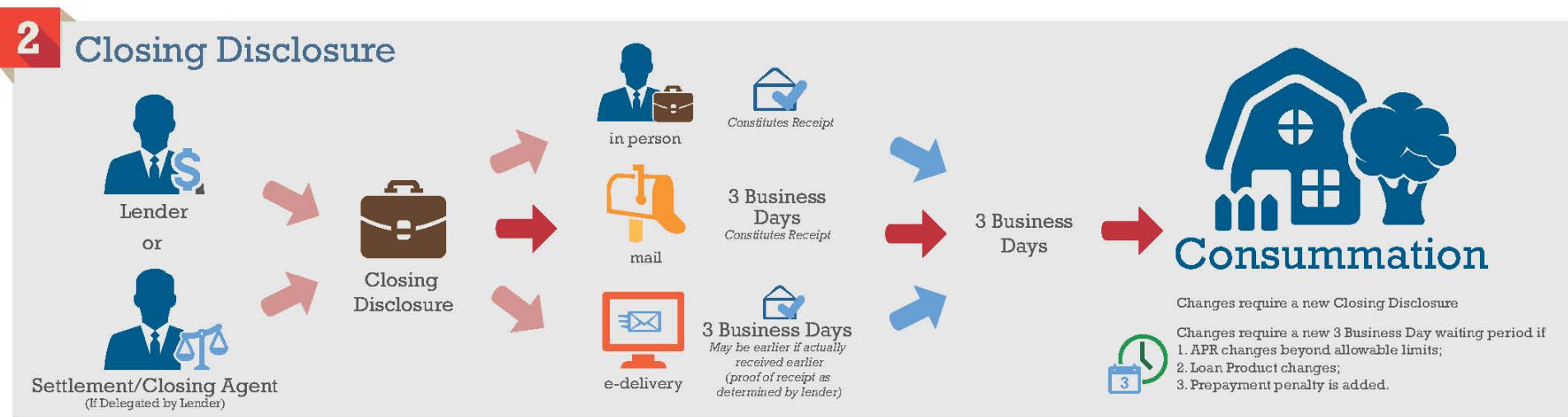
Disclosures may also be delivered electronically on the disclosures due date in compliance with E-Sign requirements.

# Closing Disclosure- Seller Charges

- Settlement agent provides disclosure to the seller reflecting the actual terms of the seller's transaction.
- Must be provided no later than the day of consummation.

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