

CFPB mortgage disclosure rules

An analysis of the Consumer
Financial Protection Bureau's
“Know Before You Owe” disclosure
forms

*March 2014 – A joint point
of view by PwC's Consumer
Finance Group and Financial
Services Regulatory Group*



Contents

Overview of the rules	1
Mortgages covered by the new rules	4
Summary of key changes in disclosures	5
Timing requirements	6
In-depth analysis – The Loan Estimate	6
Content requirements	8
Tolerances and revised Loan Estimates	12
Potential impact to loan originators	14
Timing requirements	15
Content requirements	15
In-depth analysis – The Closing Disclosure	15
Tolerances and revised Closing Disclosure	17
Potential impact to loan originators	18
Preliminary written estimate	19
Shopping for settlement service providers	19
In-depth analysis – Additional provisions	19
Limitations on upfront fees	20
Record retention	20
What can you do now?	21
Where to start?	22
How PwC can help	23
Conclusion	24
Appendix A – Content of disclosures (Loan Estimate)	25
Appendix B – Content of disclosures (Closing Disclosure)	30
For more information	37
PwC Consumer Finance contacts	37
PwC Regulatory contacts	37

Overview of the rules

“... The Consumer Financial Protection Bureau is putting in place rules that will help consumers shop around for the right mortgage. We are doing this by overhauling the mortgage disclosure forms currently required by federal law and putting in their place two simpler, easy-to-understand ‘Know Before You Owe’ forms.” (Director Richard Cordray at the “Know Before You Owe” Mortgage Field Hearing Boston, MA – November 20, 2013)

The mortgage industry has seen substantial change over the past few years as a result of new and amended regulatory requirements. In the most recent regulatory change, the Consumer Financial Protection Bureau (CFPB) issued final rules November 20, 2013 that amend existing requirements for mortgage disclosures.¹

Specifically, the rules amend components of the Truth in Lending Act (TILA) and the Real Estate Settlement Practices Act (RESPA) that have been in effect for more than 30 years. Those existing rules require lenders and settlement agents to give consumers who apply for and obtain a mortgage loan two sets of different but overlapping disclosure forms describing the loan’s terms and costs. As the CFPB observed, “This duplication has long been recognized as inefficient and confusing for both consumers and industry.”²

The new rules fulfill a Dodd-Frank Act requirement³ to address this duplication by combining the two sets of disclosures that consumers receive under the Truth in Lending Act (TILA) and under the Real Estate Settlement Practices Act (RESPA) in connection with applying for and closing on a mortgage loan. The resulting disclosure forms under the new rules replace current forms:

- The new **Loan Estimate** replaces the existing Good Faith Estimate (GFE) and the early Truth-in-Lending (TIL) disclosures that currently must be provided to the consumer within three business days of the receipt of a loan application.
- The new **Closing Disclosure** replaces the Housing and Urban Development (HUD-1) settlement statement and the final TIL statement that must be provided to the consumer at least three business days prior to loan closing.

The CFPB refers to the new disclosure forms as the “Know Before You Owe” disclosure forms. They are intended to help consumers better understand the key terms of a mortgage offered and its associated costs, and to more easily compare different loan offers. The CFPB developed the final rules over a two-year period that included notice-and-comment rulemaking as well as consumer and industry research, and consultation with industry.

¹ Published at 78 FR 79730 (Dec. 31, 2013); <https://federalregister.gov/a/2013-28210>.

² 78 FR at 79738.

³ Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), §§ 1098 and 1100A.

The rules will be effective for applications received on or after **August 1, 2015**, which provided the industry with 20 months to prepare. In selecting that effective date, the CFPB balanced:

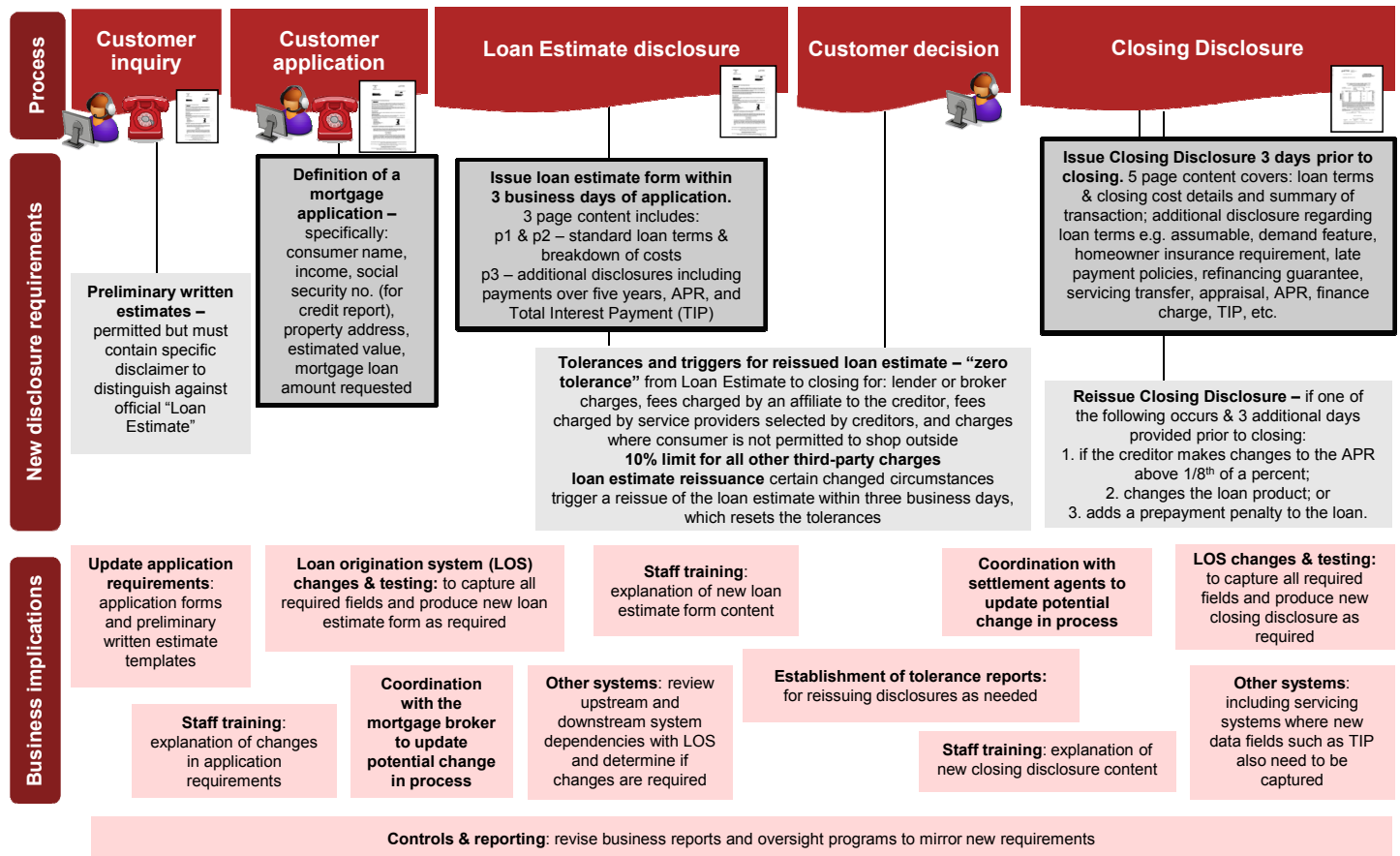
- The CFPB’s interest in making the rule effective “as soon as realistically possible” to benefit consumers, and
- The CFPB’s understanding that the final rule “will require creditors, mortgage brokers, and settlement agents to make extensive revisions to their software, to change their dealings and information sharing practices with each other and other settlement service providers, and to retrain their staffs,” and that many industry participants would also be burdened by implementing the new and amended mortgage rules that became effective in January 2014.⁴

While this implementation period may seem long, as the CFPB acknowledges, implementing the new rule will not be a quick and easy process. Much of the content requirements for the new forms are the same as or similar to the content of existing disclosures, but it will all need to be remapped and managed to populate the new forms. As a result, the new rules will require significant changes to loan origination systems (LOS) to address the content requirements of the Loan Estimate form and Closing Disclosure. The new rule will also likely impact operational processes, as there will be downstream impacts on the consumer, which must be addressed through appropriate changes to operational processes and training of staff. Moreover, developing a sufficiently detailed understanding of the impact of these rules against current practices will take time as there are still uncertainties regarding how these rules should be interpreted and implemented.

⁴ 78 FR at 80066.

The diagram below highlights some of the potential business implications of the new rules.

Business implications of integrated mortgage disclosure rules



*Processes might slightly vary depending on whether mortgage broker is used or not, however, CFPB disclosure requirements are unchanged.

Mortgages covered by the new rules

The scope of transaction types covered under current Regulation X (RESPA) and under current Regulation Z (TILA) is similar but not identical. The CFPB's harmonizing choices⁵ are shown in the table below.

Mortgages covered by new disclosure rules

Mortgages covered	Mortgages not covered
<ul style="list-style-type: none">• Closed-end consumer credit transactions backed by real property and subject to RESPA. This includes loans on secured properties covering 25 acres or more, loans secured by vacant land on which a home will be constructed or placed using the loan proceeds within two years after settlement, and temporary loans secured by real estate (construction-only loans)	<ul style="list-style-type: none">• Home equity lines of credit• Reverse mortgages• Mortgages secured by a mobile home or a dwelling that is not attached to land• Loans made by a creditor who makes five or fewer mortgage loans in a year

Existing rules will continue to apply to mortgage loan transactions not covered by the integrated mortgage disclosure rules. However, the CFPB has indicated that it plans to address integrated disclosure for mortgage-types not covered by the new rule in a separate rulemaking addressing the unique features of these loan types.⁶

⁵ See discussion at 78 FR 79789-99.

⁶ See 78 FR at 79795.

Summary of key changes in disclosures

The new integrated mortgage disclosure forms replace existing disclosure forms by integrating some of the information in existing disclosures and adding new information. The table below shows key new data fields as well as data-field changes required under the new disclosure rules.

Field	Existing forms			New forms		Summary of new requirement
	GFE	TIL	HUD-1	Loan Estimate	Closing Disclosure	
Loan terms						
Note rate and/or APR	X	X	X	X	X	Note rate appears on page 1; APR is shown only on the last page, as information to be used for comparisons (APR calculation unchanged)
Prepayment penalty	X	X	X	X	X	Existence of prepayment penalty, computed maximum possible penalty amount and date prepayment penalty period ends
Projected payments						
Estimated total monthly payment	X	X	X	X	X	Projected total monthly payments for each range of payments (separated into principal and interest; mortgage insurance; and estimated escrow) and disclosure of estimated taxes, insurance and assessments (and whether each is in escrow)
Closing cost details						
Closing cost			X	X	X	Detailed breakdown of closing costs grouped in new categories
Cash to close			X	X	X	Detailed breakdown of calculation of cash needed to close (Closing Disclosure includes comparison to Loan Estimate)
Summaries of transactions						
Consumer transaction			X		X	Detailed breakdown for total amount due from consumer at closing
Seller transaction			X		X	Detailed breakdown for total amount due from seller at closing
Comparisons/loan calculations						
Trade-off and settlement charges comparison table		X				New disclosure includes no side-by-side comparison tables, but its uniform format facilitates comparisons across loan offers
Total principal and interest paid				X	X	Includes computed total payment amount (principal, interest, mortgage insurance and loan costs) over 5 years (Loan Estimate) or the term of the loan (Closing Disclosure)
Total interest percentage (TIP)				X	X	New calculation of total interest percentage over the life of the loan

In-depth analysis – The Loan Estimate

Under current rules, lenders must provide two separate disclosure forms to consumers within three business days of applying for a mortgage loan. The GFE has been mandated by RESPA since 1974 and the early TIL disclosure has been mandated by TILA since 1968. Both disclosures are estimates that provide the consumer with information about their financing and closing costs.

While the two disclosures arise from two different consumer protection laws, the information they contain overlaps. This can be particularly confusing for consumers when the estimated amounts for some costs are different across the two disclosures. The Dodd-Frank Act sought to address that redundancy and risk of confusion by requiring the CFPB to combine certain disclosures that consumers receive under TILA and RESPA in connection with applying for a mortgage loan.

The resulting new **Loan Estimate** replaces the existing Good Faith Estimate (GFE) and the early Truth-in-Lending (TIL). The new rule and three-page Loan Estimate form are designed to reduce consumer confusion by providing one uniform and consistent disclosure for consumers.

Under the new rule, the lender retains the responsibility for meeting the rule's disclosure requirements regardless of whether the completed application is received by the lender or the mortgage broker.⁷ If a mortgage broker receives a completed application, the lender or the mortgage broker can provide the Loan Estimate to the consumer.⁸

Timing requirements

Consistent with the current rule, the new rule requires the Loan Estimate form be provided to the consumer by the third business day of receipt of the completed loan application.⁹ The requirement that early disclosure be provided at least seven business days before closing remains unchanged¹⁰ as does the provision that allows consumers to waive the seven-day waiting period only for a *bona fide* personal financial emergency (written waiver, dated, and not on a form).¹¹

⁷ 12 C.F.R. § 1026.19(e)(1)(eff. Aug. 1, 2015).

⁸ 12 C.F.R. § 1026.19(e)(1)(ii) (eff. Aug. 1, 2015).

⁹ 12 C.F.R. § 1024.7(a)(1) and 12 C.F.R. § 1026.19(e)(1)(iii) (eff. Aug. 1, 2015).

¹⁰ 12 C.F.R. § 1026.19(a)(2) and 12 C.F.R. § 1026.19(e)(1)(iii)(B) (eff. Aug. 1, 2015).

¹¹ 12 C.F.R. § 1026.19(a)(3) and 12 C.F.R. § 1026(e)(1)(v) (eff. Aug. 1, 2015).

“Business days”

The CFPB considered defining “business days” for purposes of the three-business day requirement to include every day except for Sundays and federal holidays. However, under the final rule, a “business day” for those purposes “means a day on which the creditor’s offices are open to the public for carrying on substantially all of its business functions.”¹²

In contrast, the definition of “business days” that applies to the seven-business-day waiting period includes every day except for Sundays and federal holidays.

New definition of “application”

While the timing requirements nominally remain the same under the new rule, the new rule changes what constitutes a completed “application” that triggers the three-day requirement, which effectively changes the timing requirement. Currently, Regulation X defines “application” to include the “consumer’s name, the consumer’s monthly income, the consumer’s social security number to obtain a credit report, the property address, an estimate of the value of the property, the mortgage loan amount sought, and any other information deemed necessary by the loan originator.”¹³ As a result, what would constitute a completed application could vary from lender to lender, depending on what, if any, additional information they deem necessary.

The new rule’s definition of “application” removed that “catch all” provision, but is otherwise essentially identical to the current definition.¹⁴ As a result, an “application” that triggers the timing requirement for the Loan Estimate will, for any lender, consist of:

- The consumer’s name;
- Income;
- Social security number to obtain a credit report;
- The property address;
- An estimate of the value of the property; and
- The mortgage loan amount sought.

¹² 12 C.F.R. § 1026.2(a)(6) (eff. Aug. 1, 2015).

¹³ See 12 C.F.R. § 1024.2(b). This definition also applies in the context of Regulation Z. See 12 C.F.R. § 1026.19(a)(1)(i) and comment 19(a)(1)(i)-3.

¹⁴ 12 C.F.R. § 1026.2(a)(3)(i) (eff. Aug. 1, 2015).

The CFPB removed the “catch-all” provision despite comments from the mortgage origination industry objecting to its removal. This was based on its conclusion that doing so would be in the best interest of the consumer, as it would better enable “them to shop for different financing options with clear, reliable estimates”. Further, it is expected to provide a consistent point in time for the issuance of a Loan Estimate across different mortgage providers.¹⁵

Of course, the narrow definition of “application” does not prevent loan originators from requesting and obtaining other information necessary for a reliable estimate and proper underwriting, including assessing ability to repay. Doing so, however, does not affect when the three-day period begins.

Content requirements

The new rules specify the required content of the Loan Estimate, and lenders’ disclosures must be substantially the same as the model forms the rule provides.

Each Loan Estimate form is a three-page document that covers the following:

- First page provides the key mortgage loan terms, projected payment amount scenarios and costs at closing.
- Second page breaks down closing costs, other costs and estimated cash to close.
- Third page contains a series of additional information regarding: total payments over five years, APR and Total Interest Percentage (TIP). It also covers other disclaimers such as potential need for appraisals, whether the loan is assumable, whether homeowner’s insurance is required, brief information regarding late payment policies, refinancing not guaranteed, and possibility of servicing transfer.

Refer to Appendix A for a more complete list of the content requirements for the Loan Estimate form under the new rules.

As we describe below, much of the information contained in the Loan Estimate form is the same as or similar to the information contained in current disclosures, but there are some significant additions. Some of these additions or changes impacted by the new rules are discussed further below.

¹⁵ See 78 FR at 79766.

Appendix H to Part 1026
—Mortgage Loan
Transaction Loan
Estimate Model Form
page 1:

Loan Estimate	
DATE ISSUED	
APPLICANTS	
PROPERTY SALE PRICE	
Loan Terms	
Loan Amount	
Interest Rate	
Monthly Principal & Interest <i>See Projected Payments below for your Estimated Total Monthly Payment</i>	
Prepayment Penalty	
Balloon Payment	
Projected Payments	
Payment Calculation	
Principal & Interest	
Mortgage Insurance	
Estimated Escrow <i>Amount can increase over time</i>	
Estimated Total Monthly Payment	
Estimated Taxes, Insurance & Assessments <i>Amount can increase over time</i>	
Costs at Closing	
Estimated Closing Costs	
Estimated Cash to Close	

Loan terms – Prepayment penalty

The disclosure as to prepayment penalty includes the existence of a prepayment penalty, the maximum amount such a penalty could be and when the prepayment penalty period ends; the new rule also provides guidance as to how to compute the maximum amount.¹⁶

This new requirement is similar but not identical to current disclosures. The current early TIL disclosure only requires the disclosure of the existence of a prepayment penalty, and any actual prepayment penalty fees are shown in the current GFE form. Going forward, all lenders are required to show the maximum prepayment penalty amount in the Loan Estimate. Hence, lenders will need to remap the prepayment flag to the new forms, the date the prepayment period ends, and the maximum penalty amount, including a review of the methods used to compute the maximum penalty for conformance with the new computational guidance.

Lenders also need to consider the impact of other rule changes affecting prepayments penalties, i.e., the new Ability-to-Repay rule and recent amendments to the Home Ownership Equity Protection Act rules. Lenders should be certain that system and process changes that have already resulted from implementing those changes carry across to the new disclosures, as applicable.

Projected payments

The Loan Estimate includes a breakdown of scheduled principal and interest, mortgage insurance and estimated escrow payments. The form must reflect separate periodic payment periods, to reflect changes in the amount of monthly payments that would result, for example, from interest-rate changes, balloon payments, or the cancellation of mortgage insurance. Projections of monthly payments for adjustable rate must include both the minimum and maximum possible payment amounts for each payment period, taking into account applicable caps.

Lenders will need to develop processes for showing the appropriate periodic payment periods across mortgage products. To address mortgages with mortgage insurance, lenders will need to project when mortgage insurance cancellation would be required under the Homeowner's Protection Act, which will require collateral property value (which is not part of current disclosures) to be able to project future loan-to-value (LTV) ratios.

¹⁶ See 12 C.F.R. § 1026.18(k)(1) and amended instruction 37(b)(7)(i)-1 (eff. Aug. 1, 2015).

Closing cost details

Although closing cost breakdowns are already required under existing GFE disclosures, their organization and presentation under the new rules are different, ¹⁷ which will require changes. For example:

- **Loan costs** are organized into new categories: Origination Charges (e.g., points, application fee, and underwriting fee), Services You Cannot Shop For (e.g., appraisal fee, credit report fee, flood determination fee), and Services You Can Shop For (e.g., pest inspection fee, survey fee, title insurance-related costs);
- **Other costs** captures taxes and government fees, prepaid amounts such as homeowner insurance premium, mortgage insurance premium, and property taxes, and escrow payments at closing; and
- **Calculating cash to close**, which is not currently part of the GFE (it is included, however, in the HUD-1), breaks the calculation into its component parts elements (i.e., Total closing costs less closing costs financed, payments already made by the borrower and other adjustments) which may or may not already currently be captured in the LOS.

Appendix H to Part 1026 —Mortgage Loan Transaction Loan Estimate Model Form page 2:

Closing Cost Details	
<div style="background-color: #333; color: white; padding: 2px 5px; margin-bottom: 5px;">Loan Costs</div> <div style="background-color: #F2F2F2; padding: 2px 5px; margin-bottom: 5px;">A. Origination Charges</div> <div style="padding: 2px 5px;">% of Loan Amount (Points)</div> <div style="background-color: #F2F2F2; padding: 2px 5px; margin-bottom: 5px;">B. Services You Cannot Shop For</div> <div style="background-color: #F2F2F2; padding: 2px 5px; margin-bottom: 5px;">C. Services You Can Shop For</div> <div style="background-color: #F2F2F2; padding: 2px 5px;">D. TOTAL LOAN COSTS (A + B + C)</div>	<div style="background-color: #333; color: white; padding: 2px 5px; margin-bottom: 5px;">Other Costs</div> <div style="background-color: #F2F2F2; padding: 2px 5px; margin-bottom: 5px;">E. Taxes and Other Government Fees</div> <div style="padding: 2px 5px;">Recording Fees and Other Taxes</div> <div style="padding: 2px 5px;">Transfer Taxes</div> <div style="background-color: #F2F2F2; padding: 2px 5px; margin-bottom: 5px;">F. Prepays</div> <div style="padding: 2px 5px;">Homeowner's Insurance Premium (months)</div> <div style="padding: 2px 5px;">Mortgage Insurance Premium (months)</div> <div style="padding: 2px 5px;">Prepaid Interest (per day for days @)</div> <div style="padding: 2px 5px;">Property Taxes (months)</div> <div style="background-color: #F2F2F2; padding: 2px 5px; margin-bottom: 5px;">G. Initial Escrow Payment at Closing</div> <div style="padding: 2px 5px;">Homeowner's Insurance per month for mo.</div> <div style="padding: 2px 5px;">Mortgage Insurance per month for mo.</div> <div style="padding: 2px 5px;">Property Taxes per month for mo.</div> <div style="background-color: #F2F2F2; padding: 2px 5px; margin-bottom: 5px;">H. Other</div> <div style="background-color: #F2F2F2; padding: 2px 5px; margin-bottom: 5px;">I. TOTAL OTHER COSTS (E + F + G + H)</div> <div style="background-color: #F2F2F2; padding: 2px 5px; margin-bottom: 5px;">J. TOTAL CLOSING COSTS</div> <div style="padding: 2px 5px;">D + I</div> <div style="padding: 2px 5px;">Lender Credits</div> <div style="background-color: #333; color: white; padding: 2px 5px; margin-bottom: 5px;">Calculating Cash to Close</div> <div style="padding: 2px 5px;">Total Closing Costs (J)</div> <div style="padding: 2px 5px;">Closing Costs Financed (Paid from your Loan Amount)</div> <div style="padding: 2px 5px;">Down Payment/Funds from Borrower</div> <div style="padding: 2px 5px;">Deposit</div> <div style="padding: 2px 5px;">Funds for Borrower</div> <div style="padding: 2px 5px;">Seller Credits</div> <div style="padding: 2px 5px;">Adjustments and Other Credits</div> <div style="background-color: #F2F2F2; padding: 2px 5px;">Estimated Cash to Close</div>

¹⁷ 12 C.F.R. § 1026.37 (f) (eff. Aug. 1, 2015).

Comparisons	
In 5 Years	
Annual Percentage Rate (APR)	
Total Interest Percentage (TIP)	
Other Considerations	
Appraisal	We m appr You c
Assumption	If you <input type="checkbox"/> wi <input type="checkbox"/> wil
Homeowner's Insurance	This li comp
Late Payment	If you
Refinance	Refin: mark
Servicing	We in <input type="checkbox"/> to <input type="checkbox"/> to

Comparisons – Projected totals at five years

The Loan Estimate discloses the estimated total amount of payments at five years into the loan term, broken out into the following two categories:

- **Total you will have paid in principal, interest, mortgage insurance, and loan costs.** The total principal, interest, mortgage insurance, and loan costs scheduled to be paid through the end of the 60th month after the due date of the first periodic payment, expressed as a dollar amount, along with the statement.
- **Principal you will have paid off.** The total principal scheduled to be paid through the end of the 60th month after the due date of the first periodic payment, expressed as a dollar amount.

This is a change in that the early TIL disclosure shows the total finance charge and the total of payments over the term of the loan but does not require projected totals at five years.

Comparisons – Total interest percentage (TIP)

The new rule creates a new disclosure element, the total interest percentage (TIP), which is defined as “the total amount of interest that you will pay over the loan term as a percentage of your loan amount.”

The CFPB provides the following additional clarification to assist with the consistency of the TIP calculation:

- When calculating the total interest percentage, assume that the consumer will make each payment in full and on time, and will not make any additional payments.
- For an Adjustable Rate product, when lenders use an initial interest rate that is not calculated using the index or formula for later rate adjustments, the disclosure should reflect a composite annual percentage rate based on the initial rate for as long as it is charged and, for the remainder of the term, the rate that would have been applied using the index or formula at the time of consummation.
- For Step Rate products, the lender computes the total interest percentage based on the disclosed interest rate schedule.¹⁸

Because this is an entirely new disclosure element, lenders will need to adapt their systems and processes to it.

¹⁸ Official comment 37(l)(3) Total interest percentage.

Other considerations

The Loan Estimate also requires disclosures as to:

- Whether the lender may order an appraisal;
- Whether the mortgage will be assumable;
- Whether the loan requires homeowner's insurance;
- The fees charged for late payments;
- A statement that the lender does not guarantee that the borrower can refinance the loan in the future; and
- A statement as to the lender's intent as to transferring servicing of the loan in the future.

The source data for each of these disclosures (other than the statement on refinancing) will be either in the note or the lender's policies.

Tolerances and revised Loan Estimates

Similar to current rules, the new rules limit the extent to which actual closing costs can exceed the amounts estimated in the Loan Estimate form.

However, there is an exception when circumstances change that affect the amount of the closing cost estimated. When that occurs, a lender may issue a revised Loan Estimate.¹⁹ The tolerances below then would apply to the revised Loan Estimate only.

When such an exception applies, the lender generally must provide an updated, revised Loan Estimate form within three business days. This also resets the seven-day waiting period between the date of the Loan Estimate and closing.

Charges subject to a zero percent tolerance

Certain estimated costs are generally not permitted to exceed the amounts estimated in the Loan Estimate at all.²⁰ This category includes:

- Origination charges paid to the lender or mortgage broker;
- Charges for third-party services paid to an unaffiliated third party for which the consumer is not permitted to shop;

¹⁹ 12 C.F.R. § 1026.19(e)(3)(iv) (eff. Aug. 1, 2015).

²⁰ 12 C.F.R. § 1026.19 (e)(3) (eff. Aug. 1, 2015).

- Charges for any third-party services paid to an affiliate of the lender or a mortgage broker; and
- Transfer taxes.

This zero tolerance category is broader than that under current rules. Under current rules charges that are for third-party services the consumer could not shop for or that are paid to the lender or that are paid to affiliates of the lender are subject to the 10 percent tolerance. Therefore, lenders will need to update system triggers and processes to ensure that actual costs borne by the borrower at closing are within required tolerances.

Charges subject to a 10 percent tolerance

Certain other closing charges not included in the zero-tolerance category are generally permitted to increase by up to 10 percent.²¹ This includes the aggregate amount of charges for third-party service providers for which the consumer is permitted to shop that are not affiliates of the lender, and recording fees paid by or imposed on the consumer.

Charges not subject to a tolerance

Some charges are not subject to either tolerance category above,²² including:

- Prepaid interest;
- Property insurance premiums;
- Amounts placed into an escrow, impound, reserve, or similar account;
- Charges paid to third-party service providers selected by the consumer that are not on a list provided by the lender; and
- Charges paid for third-party services not required by the lender.

²¹ 12 C.F.R. § 1026.19(e)(3)(ii) (eff. Aug. 1, 2015).

²² 12 C.F.R. § 1026.19(e)(3)(iii) (eff. Aug. 1, 2015).

Potential impact to loan originators

Loan originators will need to make a variety of changes to implement the new Loan Estimate forms. A list of the key activities includes the following:

System related changes

- Restructuring and re-developing template forms and data feeds; may also require restructuring screens and tables within the Loan Origination System (LOS);
- Identifying additional data elements necessary to populate forms (e.g., estimated collateral property value to project future LTVs to project when mortgage insurance would be cancelled), and identifying definitive data sources, including disclosures based on lender policies (e.g., intentions to transfer servicing, etc.); and
- Developing business rules to generate estimates that reliably projecting future closing costs, prepayment penalties, projected payments, etc., within allowable tolerances for increases, and tighten tolerances for increases over disclosed closing estimates in alignment with rule tolerance for cost increases.

Operational process changes

- Reviewing and revising application process to facilitate capturing the information necessary to populate the Loan Estimate, which needs to be available before or at the same time the lender collects the six pieces of information that constitute a completed application;
- Developing processes and controls for timely review of applications submitted through the internet, by mail or from mortgage broker to identify completed “application” triggering requirement to provide a Loan Estimate, and triggers for issuing revised Loan Estimates;
- Implementing controls for providing Loan Estimates within three business day of receipt of complete application, taking into account the amended definition of “application,” which is not the same as the definition of “application” for other purposes, e.g., under the Equal Credit Opportunity Act (ECOA) or under Home Mortgage Disclosure Act (HMDA); and
- Training staff on new Loan Estimate forms to enable them to explain the form and its contents to consumers.

In-depth analysis – The Closing Disclosure

For over 30 years, mortgage lenders have been required to disclose the TIL Statement and HUD-1 settlement statement in connection with the closing of a mortgage loan, along with the other documents consumers receive when they close a mortgage loan, such as the mortgage note, riders and addendums. The new rule and its five-page Closing Disclosure form replace the TIL Statement and the HUD-1, providing one uniform and consistent disclosure for consumers at least three business days prior to closing.

Either the lender or a settlement agency may provide the Closing Disclosure, so long as it complied with the requirements of the rules.²³ However, in either case, the lender is responsible for delivering the Closing Disclosure form to the consumer and so must ensure that the Closing Disclosure is provided in accordance with the rule.

Timing requirements

In a significant change from current law on closing disclosures, the new rule provides that the consumer must receive the Closing Disclosures not later than three business days before consummation.²⁴ This means just-in-time delivery of closing disclosures will no longer be acceptable. The consumer can waive three-business-day waiting period for a *bona fide* financial emergency.²⁵

Moreover, changes to the information provided in the Closing Disclosure can restart that three-business-day waiting period. Refer to the “tolerance and revised Closing Disclosure” section below for more details.

Content requirements

Consistent with the Loan Estimate form, the CFPB’s integrated mortgage disclosure rules specify the content of the Closing Disclosure and provide model forms. The Closing Disclosure form is a five-page document that contains much of the information disclosed in the Loan Estimate form, as well as additional information. It is organized as follows:

- First page is essentially the same as the first page of the Loan Estimate form capturing key mortgage loan terms, projected payment amount scenarios and costs at closing.
- Second and third page covers breakdown of closing costs, other costs, cash to close and summaries of transactions, split between borrower and seller information.

²³ 12 C.F.R. § 1026.19(f)(1)(v) (eff. Aug. 1, 2015).

²⁴ 12 C.F.R. § 1026.19(f)(1)(ii)(A) (eff. Aug. 1, 2015).

²⁵ 12 C.F.R. § 1026.19(f)(1)(iv) (eff. Aug. 1, 2015).

- Fourth and fifth page contains a series of additional information regarding: total payments, finance charge, amount financed, APR and TIP. It also covers other disclaimers such as potential need for appraisals, whether the loan is assumable, whether homeowner's insurance is required, brief information regarding late payment policies, partial payments, escrow accounts, refinancing not guaranteed, and possibility of servicing transfer.

Refer to Appendix B for a more complete list of the content requirements for the Closing Disclosure under the new rules.

In general, the Closing Disclosure provides more detailed breakdown and categorization of information than current disclosure, which may require material changes to the Loan Origination System in order to ensure all of the individual data elements are captured.

Given its similarity with the Loan Estimate form, in this section, we will focus on some of the additions in the Closing Disclosure not covered by the Loan Estimate form.

Closing cost details

The Closing Disclosure organizes the elements of closing costs into the same new categories as the Loan Estimate, with columns showing costs paid "At Closing" and "Before Closing."

As a result, lenders may be able to leverage the work done to develop this section of the Loan Estimate to populate this section of the Closing Disclosure. They will need to map both the cost estimates from the Loan Estimate form into the Closing Disclosure cost detail section, as well as capture actual amounts and surrounding detail rather than estimates.

Those actual amounts will also need to be screened against the tolerances for increases described above to prevent passing any impermissible charges on to consumers.

Partial payment policy

The requirement to disclose the lender's partial payment policy is a change from current disclosure requirements. Under the rules as originally proposed, the required disclosure would have included descriptions on how partial payments, if accepted, would be applied to the consumer's account and whether any penalties would apply. However, in response to industry comments raising concerns of burdensome costs associated with implementation, the final rules require only a statement to be included. Specifically, whether the lender: may accept periodic payments that are less than the full amount due, may hold them in a separate account until the borrower pays the rest of the payment before applying the full payment, or

Appendix H to Part 1026 –
Mortgage Loan Transaction
Closing Disclosure Model Form
page 4 “Escrow Account”:

Escrow Account For now, your loan <input type="checkbox"/> will have an escrow account (also called an “impound” or “trust” account) to pay the property costs listed below. Without an escrow account, you would pay them directly, possibly in one or two large payments a year. Your lender may be liable for penalties and interest for failing to make a payment.		
Escrow		
Escrowed Property Costs over Year 1		Estimated total amount over year 1 for your escrowed property costs:
Non-Escrowed Property Costs over Year 1		Estimated total amount over year 1 for your non-escrowed property costs: You may have other property costs.
Initial Escrow Payment		A cushion for the escrow account you pay at closing. See Section G on page 2.
Monthly Escrow Payment		The amount included in your total monthly payment.
<input type="checkbox"/> will not have an escrow account because <input type="checkbox"/> you declined it <input type="checkbox"/> your lender does not offer one. You must directly pay your property costs, such as taxes and homeowner’s insurance. Contact your lender to ask if your loan can have an escrow account.		
No Escrow		
Estimated Property Costs over Year 1		Estimated total amount over year 1. You must pay these costs directly, possibly in one or two large payments a year.
Escrow Waiver Fee		
In the future, Your property costs may change and, as a result, your escrow payment may change. You may be able to cancel your escrow account, but if you do, you must pay your property costs directly. If you fail to pay your property taxes, your state or local government may (1) impose fines and penalties or (2) place a tax lien on this property. If you fail to pay any of your property costs, your lender may (1) add the amounts to your loan balance, (2) add an escrow account to your loan, or (3) require you to pay for property insurance that the lender buys on your behalf, which likely would cost more and provide fewer benefits than what you could buy on your own.		

does not accept partial payments. The new disclosures also include a warning that, if the loan is sold, the new lender may have a different policy.

This is a servicing policy, and hence the information required to populate this in the Closing Disclosure may need to be incorporated into the Loan Origination System or embedded into the underlying disclosure template.

Escrow account

The Closing Disclosure provides more information about escrow than current disclosures, which will require corresponding changes to originators systems and processes. Specifically, the Closing Disclosure discloses whether the consumer’s loan will have an escrow account and must disclose certain details as to payments made using escrow account funds and those the consumer must make directly.

The rule also includes a standardized warning to consumers that escrow payments may change and a warning as to the consequences of failing to pay property taxes or to pay property costs.

Tolerances and revised Closing Disclosure

Under the new rules, a change can trigger a new Closing Disclosure and a new waiting period if any of the following events occurs that causes the Closing Disclosure to be inaccurate:

- Changes to the APR greater than 1/8 of a percent (or 1/4 of a percent for loans with irregular payments or periods) that causes the disclosures to become inaccurate;
- Changes to the loan product that cause the disclosure to become inaccurate; or
- Adding a prepayment penalty, causing the disclosure to become inaccurate.

The additional three-business-day waiting period after the revised Closing Disclosure is subject to a consumer’s written waiver for a *bona fide* financial emergency.

Not all changes to the information in the Closing Disclosure, however, require a restart of the waiting period. For less significant changes than those described above, the lender may provide the consumer with an updated Closing Disclosure at or before the closing reflecting such changes.

As was described above, the actual closing charges passed on to the consumer must comply with the zero and 10 percent tolerances for increases over the amounts disclosed in the Loan Estimate.

Potential impact to loan originators

The implication of these changes to loan originators is expected to be significant. However, with the overlap between the Loan Estimate and the Closing Disclosure, business implications are similar to those discussed in the earlier section.

In-depth analysis – Additional provisions

The CFPB's integrated new mortgage disclosure rules also include several other requirements outside of the two new disclosures.

Preliminary written estimate

Under the current loan origination process, it is common for consumers to request an informal estimate or a quote for a mortgage loan prior to submitting an application. The final rules permit this practice to continue, with specific disclosure requirements. That is, if a lender (or mortgage broker) provides a consumer with a written estimate of terms or costs specific to that consumer before the consumer receives a Loan Estimate form, the lender shall clearly and conspicuously state at the top of the front of the first page of the estimate in a font size that is no smaller than 12-point font: “Your actual rate, payment, and costs could be higher. Get an official Loan Estimate before choosing a loan.”²⁶

There has been some confusion as to whether the disclaimer requirement also applies to advertisements. The new rules themselves are clear: an Official Comment on the disclaimer provision states: “This requirement does not apply to an advertisement.”²⁷ The preamble to the final rule, as posted on the CFPB's website on November 20, 2013 says exactly the opposite: its summary of the rule describes the disclaimer requirement and part of that description includes the statement: “This requirement applies to an advertisement.”²⁸ The CFPB corrected that statement (by adding the missing “does not”) in the official version of the rule that was published in the Federal Register on December 31, 2013.²⁹

Impact – This will affect the current process for mortgage brokers or retail lenders. The process in which a written estimate would be provided to a consumer will need to be reviewed and templates for written estimates will need to be updated.

Shopping for settlement service providers

The Closing Cost Details sections of both the Loan Estimate form and the Closing Disclosure show “services that you can shop for” where the consumer has the ability to select specific service providers. Consistent with current law, under the new rule, the lender is required to provide the

²⁶ 12 C.F.R. § 1026.19(e)(2)(ii) (eff. Aug. 1, 2015).

²⁷ Supplement I to Part 1026 – Official Interpretations, Official Comment 19(e)(2)(ii)-1 *Written information provided to consumer* (eff. Aug. 1, 2015).

²⁸ Integrated Mortgage Disclosures under the Real Estate Settlement Procedures Act (Regulation X) and the Truth In Lending Act (Regulation Z), CFPB, Final rule; official interpretation, page 5 of 1888 (Nov. 20, 2013).

²⁹ 78 FR at 79731.

consumer a written list of available providers with at least one option.³⁰ The list must be provided separately from the Loan Estimate form, but must be provided in the same time frame. There is no restriction against providing the list in the same transmittal.

Impact – Lenders will need to review and maintain such a list of service providers (selected by the lender), and ensure that there is a process in place to keep this list up to date as needed.

Limitations on upfront fees

Consistent with current law, under the new rule, consumers may not be charged for any upfront fees in connection with the mortgage application before a Loan Estimate form has been issued and accepted by the consumer to proceed with the mortgage transaction.³¹ The only exception to the rule relates to the charging of fees for obtaining the consumers' credit reports.

Impact – This should have minimal impact to lenders.

Record retention

The CFPB proposed to require lenders to maintain standardized, machine-readable, electronic versions of the Closing Disclosure and any reasons for changes to the information provided in the disclosure, for a period to be determined. However, the CFPB did not adopt that approach in the final rule. Instead the record retention provision requires as follows ³²:

- Loan Estimate – retain for three years from the later of the date of consummation, date the disclosure is required to be made, or date the action is required to be taken; and
- Closing Disclosures – retain for five years after date of consummation, and if the loan is service transferred, a copy needs to be supplied to the new servicer as part of the service transfer file.

Impact – Although current document retention policies driven by business needs tend to exceed the timeline prescribed in these requirements, it is important to ensure that the document retention process for these new mortgage disclosure forms meets the requirements. In addition, originators should review the servicer transfer file checklist to ensure that Closing Disclosures replace the current TIL and HUD-1 settlement forms.

³⁰ 12 C.F.R. § 1026.19(e)(1)(vi) (eff. Aug. 1, 2015); see also HUD RESPA FAQs p. 15, #7 (“GFE—Written list of providers”).

³¹ 12 C.F.R. § 1026.19(e)(2)(i) (eff. Aug. 1, 2015).

³² 12 C.F.R. § 1026.25 (eff. Aug. 1, 2015).

What can you do now?

Companies have until August 1, 2015, to be fully compliant with CFPB's new integrated mortgage disclosure rules. The CFPB provided companies 20 months to prepare for these changes as the rules were published in November 2013. This is a longer lead time than that provided for the CFPB mortgage rules that came into effect on January 10th, 2014. However, given the nature of the changes, and the industry's need to also focus on the recent changes in 2013, this is still not a lot of time.

It is anticipated that the majority of the changes are related to the Loan Origination System (LOS). As a result, the magnitude of the effort will be dependent on the structure of your institution. The table below provides a preliminary view of key tasks and actions, by function or company type:

Function / company types	Potential tasks / actions
Mortgage originator with in-house LOS	<ul style="list-style-type: none">• Develop detailed BRD for changes required in LOS• Implement & test changes• Conduct staff training
Mortgage originator utilizing off-the-shelf / purchased LOS (still supported by vendor)	<ul style="list-style-type: none">• Liaise with service provider to understand their timeline and update releases• Test upgrade releases provided by the vendor• Attend vendor system training
Mortgage brokers	<ul style="list-style-type: none">• Need for training on new forms• Review of current processes and interaction with mortgage lenders
Settlement agents	<ul style="list-style-type: none">• Need for training for new forms• Review of current processes and interaction with mortgage lenders

Where to start?

The mortgage industry can leverage the recent experience of the 2013 CFPB mortgage rule changes to build towards the success of this new undertaking. One particular area of improvement that can be gained from lessons learned is the upfront project planning and scoping exercise. This is a big exercise and experience has shown that, to do it accurately, companies should focus on each of the following:

- Understanding the rules and staying informed of continuous developments – there are still areas requiring further clarification by the CFPB so it will be important to monitor these to ensure final implementation is in compliance with CFPB’s expectations;
- Conducting initial analysis and identification of specific areas of changes that are needed as a result of these new rules – we all know there is a significant component of change associated with the need to update the LOS; however, it is important to identify all impacted areas, including upstream and downstream dependencies. Where a change required is dependent on third-party vendors, it will still be important to assess internally, what additional changes such as personnel training, interface with other systems, updated policies and procedures and reporting, etc., may be needed;
- Identifying critical milestone dates and roadmap for implementing changes and developing a detailed project plan;
- Determining resources necessary to implement changes; and
- Developing a robust governance structure to monitor implementation plan and track against project plan, with appropriate escalation protocols for issues management.

How PwC can help

PwC has significant experience in assisting mortgage industry clients with regulatory compliance, risk management, process improvement and quality procedures. To help lenders meet the complex challenges posed by this overhaul of the mortgage disclosures forms, PwC can tailor teams equipped with the requisite deep industry and regulatory experience and knowledge to guide the process.

PwC will be able to help clients with:

- Analysis of the regulatory requirements and their associated impact on business operations, leveraging our subject matter specialists in mortgage originations;
- Development of operational road maps to ensure timely implementation for mortgage originators, as well as, facilitating activities with vendors, mortgage brokers and settlement agents;
- Assist in the drafting of business requirement documents and functional requirements for system changes and user acceptance testing;
- Updating procedural documentations for operational changes;
- Development of training programs to prepare staff with knowledge of the changing operating procedures surrounding the new forms; and
- Assist in the identification of controls and testing procedures for new processes developed throughout implementation.

Conclusion

“It is obvious with the announcement of the new mortgage disclosure forms by the CFPB, 2014 will be a year of process and procedural challenges for the settlement industry as well as the lending industry. ... If it was the opinion that the addition of the GFE implemented only four years ago was a challenge, this new set of rules will be a scale of change that will take every day of the 18 months that the CFPB has given to us to adjust — only to have each individual lender’s interpretation of this rule and the forms that go along with it, and likely contradict each other.”(Paula Franks, President, Escrow Institute of California – January 2014 State of the Industry Report)

Over three months have lapsed since the CFPB released its integrated mortgage disclosure rules and finalized the “Know Before You Owe” mortgage forms. Across the industry, some companies have started developing an understanding of the requirements. A number of different events and working sessions have been conducted to drive a consistent understanding of the specific requirements, and more will occur. Despite open dialogue, further clarification may still be issued by the CFPB to ensure consistent implementation, in order to achieve CFPB’s three core objectives for the new disclosures:

- Improve consumer understanding;
- Better comparison shopping; and
- Avoiding costly surprises at the closing table.³³

Given the multiple moving parts, a key to successfully implementing the required changes by the August 1, 2015 deadline, will be conduct the necessary detailed planning upfront. Armed with a clear understanding of which elements of technology, process and people need to be updated, companies can design a critical milestone and implementation roadmap to monitor and ensure timely execution.

Clearly, a large component of the implementation of the new rules will be the necessary systems updates to the Loan Origination System (LOS). The volume of work and dependency on critical staffing personnel (internal or external) for those efforts will vary depending on whether loan originators utilize a purchased system, or build an in-house system. However, regardless of structure, it will be important for the project team managing the CFPB mortgage disclosure readiness project to fully understand the changes that will need to be implemented to design appropriate testing and to assess downstream and upstream impacts and potential operational changes. One of the more challenging aspects of this project will be to ensure that the various components and updates all come together in the end. Twenty months of implementation time provided by the CFPB may appear to be a long time; however, due to the nature of the required changes timing may still be a risk.

³³ See CFPB release, CFPB Finalizes “Know Before You Owe” Mortgage Forms (Nov 20, 2013).

Appendix A – Content of disclosures (Loan Estimate)

Each Loan Estimate form is a three-page document that includes the following information, as is further specified in new 12 C.F.R. § 1026.37, model forms, and Official Interpretations (effective August 1, 2015):

Page	Content Requirements	Description
1	General Information	<ul style="list-style-type: none">• Title of the form – “Loan Estimate”• Statement to be included – “Save this Loan Estimate to compare with your Closing Disclosure”• Creditor – Name and address of creditor making the disclosures• Date issued – date the disclosures are mailed or delivered to the consumer by the creditor• Applicants – The name and mailing address of the consumer(s) applying for the credit• Property – The address including zip code of the property that will secure this transaction, or if the address is unavailable, the location of such property including zip code• Sale price / Estimated property value – Contract sale prices if transaction involves a seller, otherwise the estimated value of the property• Loan term – Term to maturity of the mortgage transaction in years or months, or both, as applicable• Purpose – Consumer’s intended use selected from purchase, refinance, construction or home equity loan• Product – A description of the loan product selected from adjustable rate, step rate, or fixed rate. If applicable, that product description must be preceded by features that may change using the following terms: negative amortization, interest only, step payment, balloon payment or seasonal payment, preceded by the duration of any introductory rate or payment period, and the first adjustment period, as applicable (if multiple features, only use feature that appears earliest in the list above)• Loan type – The type of loan offered to the consumer selected from conventional, FHA, VA, or other• Loan identification number – unique identifier used to identify the transaction• Rate lock – A statement of whether the interest rate disclosed in the loan terms is locked for a specified period (including expiration date and time, and disclaimer that rates may change if not locked)

Page	Content Requirements	Description
1	Loan Terms	<ul style="list-style-type: none"> • Heading of the table – “Loan Terms” • Loan Amount – The amount of the credit to be extended • Interest Rate – Interest rate at consummation, for an adjustable rate where the rate at consummation is not known disclose the fully indexed rate • Principal and Interest Payment – The initial periodic payment amount that will be due under the terms of the legal obligation, immediately preceded by the applicable unit-period, and a statement referring to the payment amount that includes any mortgage insurance and escrow payments that is required to be disclosed; for an adjustable rate where the rate at consummation is not known, the initial periodic payment based on the fully indexed rate • Prepayment Penalty – A statement of whether or not the loan has a penalty for early payoff: there is a prepayment penalty, also include the maximum possible prepayment penalty and the date the penalty period ends • Balloon Payment – A statement of whether or not the loan has a balloon payment; if there is a balloon payment, also include the maximum amount of the balloon payment and the due date of such payment • Adjustment After Consummation – Titled “Can this amount increase after closing?” with a yes or no answer; if yes, include additional information regarding: Adjustment in loan amount; Adjustment in interest rate; and increase in periodic payment, as applicable • Timing – The date of the adjustment of the interest rate; the date in which the loan amount adjusts; the date the periodic payment increases; the date of the balloon payment; and the date the prepayment penalty expires, applicable
1	Projected Payments	<ul style="list-style-type: none"> • Heading of the table – “Projected Payments” • Periodic Payment or Range of Payments – The initial periodic payment or range of payments (maximum and minimum), plus up to three additional periodic payment or range of payments where the periodic payment may change; there is a scheduled balloon payment; the creditor must terminate the mortgage insurance during the term of the loan under applicable law; the anniversary of the first adjustment date if there are multiple adjustments within a single year • Itemization of total monthly payment – The payments or range of payments must be itemized as follows: The amount payable for principal and interest; the amount payable for mortgage insurance; the amount payable into an escrow account; and the total periodic payment as the sum of the three components
1	Estimated Taxes, Insurance & Assessments	<ul style="list-style-type: none"> • Heading of the table – “Estimated Taxes, Insurance & Assessments” • Sum of estimated taxes, insurance and assessments, even if no escrow account for the payment of some or all of such charges will be established • A statement as to whether some of the amounts shown will be paid by the creditor using escrow funds • A statement that these amounts can increase over time • A statement that the borrower must pay separately any costs that are not paid out of escrow funds • A reference to additional information on the escrow account at page 2 of the form

Page	Content Requirements	Description
1	Costs at Closing	<ul style="list-style-type: none"> • Heading of the table – “Costs at Closing” • Estimated Closing Costs – The net of: Loan Costs, Other Costs, and Lender Credits; with disclosure of each amount; and a reference to more detailed information at page 2 • Estimated Cash to Close – The Estimated Cash to Close computed at page 2; statement that the amount includes Closing Costs, and reference to more detailed information at page 2 • An alternate table may be substituted for transactions that do not have a seller
1	Website reference	<ul style="list-style-type: none"> • A website reference directing consumer to the CFPB mortgage site to obtain additional information and tools: www.consumerfinance.gov/mortgage-estimate
2	Closing Cost Details	<ul style="list-style-type: none"> • Master heading of the page – “Closing Cost Details”
2	Loan Costs	<ul style="list-style-type: none"> • Heading of the table – “Loan Costs” • Origination Charges – Itemization and subtotal of each amount that the borrower will pay to each creditor and loan originator for originating and extending the credit, including points paid (disclosed as a dollar amount as well a percentage of the loan) • Services You Cannot Shop For – Itemization and subtotal of services that the consumer cannot shop for (i.e., Appraisal, Credit, Flood, and Tax status, that are provided by persons other than the creditor or mortgage broker • Services You Can Shop For – Itemization and subtotal of amounts that the borrower will pay for services the borrower is able to shop for: Title, Survey, and Pest inspection • Total Loan Costs – Sum of Origination Charges, Services you cannot shop for, and Services you can shop for • An addendum to this section may not be used for any subsection except “Services You Can Shop For.” If the amounts in other sections cannot be fully itemized, the remaining charges should be disclosed in the aggregate amount as “Additional Charges” at the end of the subsection.

Page	Content Requirements	Description
2	Other Costs	<ul style="list-style-type: none"> • Heading of the table – “Other Costs” • Taxes and Other Government Fees – Amount paid to state and local governments, itemized as: recording fees and taxes not including transfer taxes, and transfer taxes • Prepaids – Amounts to be paid by the borrower in advance of the first payment, itemized as: homeowners insurance, mortgage insurance, prepaid interest, property taxes, items not charged to borrower, and up to three additional items • Initial Escrow Payment – amount that the borrower is expected to reserve for escrow, itemized as: homeowners insurance, mortgage insurance, property taxes, any amount not charged to the borrower, and up to four additional fields • Other – Up to five descriptive fields detailing additional amounts in connection with the transaction • Total Other Costs – Sum of Taxes and other government fees, Prepaids, Initial escrow payment, and Other • Total Closing Costs – The sum of: Total Loan Costs and Total Other Costs, less Lender Credits • Costs must be listed in the order prescribed and, otherwise, in alphabetical order • An addendum is allowed for additional items; the amount must be disclosed as “Additional Charges.”
2	Calculating Cash to Close	<ul style="list-style-type: none"> • Heading of the table – “Calculating Cash to Close” • Total amount of cash needed from the borrower to close the loan itemized into the following components: Total closing costs, Closing costs to be financed, Down payment, Other funds from the borrower, Deposit, Funds for the borrower, Seller credits, Adjustments and other credits; and Estimated cash to close • For transactions without a seller the components are: Loan amount, Total closing costs, Payoffs and payments, Cash to or from the borrower, and Closing costs financed
2	Adjustable Payment (AP) Table	<ul style="list-style-type: none"> • Heading of the table – “Adjustable Payment (AP) Table” • If the periodic payment may change not in relation to interest rate, an additional table must be added with the following information: Interest only payment, Optional payment, Step payment, Seasonal payment, Principal and interest payment
2	Adjustable Interest Rate (AIR) Table	<ul style="list-style-type: none"> • Heading of the table – “Adjustable Interest Rate (AIR) Table” • If the interest rate of the loan can increase after consummation, another table must be included with the following information: Index and margin, Increase in interest rate, Initial interest rate, Minimum and maximum interest rate, Frequency of adjustments, and Limits on interest rate changes
3	Additional Information About this Loan	<ul style="list-style-type: none"> • Master heading for the page – “Additional Information About this Loan”

Page	Content Requirements	Description
3	Contact Information	<ul style="list-style-type: none"> • Heading of the table – “Contact Information” • NMLS ID/License ID for the lender and mortgage broker (if any) • NMLS ID/License ID for the individual Loan officer and mortgage broker (if any) that serve as principal contact with the borrower, and their emails and phone numbers
3	Comparisons	<ul style="list-style-type: none"> • Heading of the table – “Comparisons” • Must include the statement “Use these measures to compare this loan with other loans” • In 5 Years – Total principal interest, mortgage insurance, and loan costs scheduled to be paid by the borrower through the 60th month, as well as the principal to be paid off by the borrower through the 60th month • Annual Percentage Rate – Including the statement “Your costs over the long term expressed as a rate. This is not your interest rate.” • Total Interest Percentage (TIP) – Including the statement: “The total amount of interest that a consumer will pay over the life of the loan expressed as a percentage of the credit extended
3	Other Considerations	<ul style="list-style-type: none"> • Heading of the section – “Other Considerations” • Appraisal – A statement that the creditor may order the appraisal to determine the value of the property • Assumptions – A statement of whether the loan can be assumed or not • Home Owners Insurance – A statement of whether home owners insurance is required • Late Payment – A statement that details any charge to the borrower for a late payment, stated as dollar amount or percentage • Refinance – The statement: “Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan.” • Servicing – A statement of whether the lender intends to service or transfer the loan • Liability after foreclosure (only for a refinancing transaction) – A statement that some state law foreclosure protections may be lost, the potential consequences of the loss of such protections, and a statement the borrower should consult an attorney for the state specific liability after foreclosure
3	Signature Statement	<ul style="list-style-type: none"> • Either of two approaches, at the lender’s option • Option 1: Section captioned “Confirm Receipt,” with signature lines, and the following statement: “By signing, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form.” • Option 2: Section captioned “Loan Acceptance,” with the following statement: “You do not have to accept this loan because you have received this form or signed a loan application.”

Appendix B – Content of disclosures (Closing Disclosure)

The Closing Disclosure form is a five-page document that contains much of the information disclosed in the Loan Estimate form, as well as additional information, as is further specified in new 12 C.F.R. § 1026.38, model forms and Official Interpretations (effective August 1, 2015). It is organized as follows:

Page	Content Requirements	Description
1	General Information	<ul style="list-style-type: none">• Title of the form – “Closing Disclosure”• Statement to be included – “This form is a statement of final loan terms and closing costs. Compare this document with your Loan Estimate.”• Closing Information – Includes the following:<ul style="list-style-type: none">– Date Issued – date the disclosures are delivered to the consumer– Closing Date – The date of consummation– Disbursement Date – The date the funds are expected to be paid– Settlement Agent – Name of agent conducting closing– File Number – Number assigned to transaction by settlement agent– Property – The address, or location of the property including zip code, of the property that will secure this transaction– Sale price / Appraised Prop. Value – Contract sale prices of the property or the appraised value in transactions where there is no seller• Transaction Information – Includes the following:<ul style="list-style-type: none">– Borrower – The name and mailing address of the consumer(s) applying for the credit– Seller – Where applicable, the sellers name and mailing address– Lender – The name of the creditor• Loan Information – Includes the following:<ul style="list-style-type: none">– Loan term – Term to maturity of the mortgage transaction in years or months, or both, as applicable– Purpose – Consumer’s intended use selected from purchase, refinance, construction or home equity loan– Product – A description of the loan product selected from adjustable rate, step rate, or fixed rate. If applicable, that product description must be preceded by features that may change using the following terms: negative amortization, interest only, step payment, balloon payment or seasonal payment, preceded by the duration of any introductory rate or payment period, and the first adjustment period, as applicable (if multiple features, only use feature that appears earliest in the list above)– Loan type – The type of loan offered to the consumer selected from: conventional, FHA, VA, or other– Loan identification number – unique identifier used to identify the transaction– Mortgage Insurance – The mortgage insurance case number (MIC#)

Page	Content Requirements	Description
1	Loan Terms	<ul style="list-style-type: none"> • Heading of the table – “Loan Terms” • Loan Amount – The amount of the credit to be extended • Interest Rate – Interest rate at consummation, for an adjustable rate where the rate at consummation is not known disclose the fully indexed rate • Principal and Interest Payment – The initial periodic payment amount that will be due under the terms of the legal obligation, immediately preceded by the applicable unit-period, and a statement referring to the payment amount that includes any mortgage insurance and escrow payments that is required to be disclosed; for an adjustable rate where the rate at consummation is not known, the initial periodic payment based on the fully indexed rate • Prepayment Penalty – A statement of whether or not the loan has a penalty for early payoff; there is a prepayment penalty, also include the maximum possible prepayment penalty and the date the penalty period ends • Balloon Payment – A statement of whether or not the loan has a balloon payment; if there is a balloon payment, also include the maximum amount of the balloon payment and the due date of such payment • Adjustment After Consummation – Titled “Can this amount increase after closing?” with a yes or no answer; if yes, include additional information regarding: Adjustment in loan amount; Adjustment in interest rate; and increase in periodic payment, as applicable • Timing – The date of the adjustment of the interest rate; the date in which the loan amount adjusts; the date the periodic payment increases; the date of the balloon payment; and the date the prepayment penalty expires, applicable
1	Projected Payments	<ul style="list-style-type: none"> • Heading of the table – “Projected Payments” • Periodic Payment or Range of Payments – The initial periodic payment or range of payments (maximum and minimum), plus up to three additional periodic payment or range of payments where the periodic payment may change; there is a scheduled balloon payment; the creditor must terminate the mortgage insurance during the term of the loan under applicable law; the anniversary of the first adjustment date if there are multiple adjustments within a single year • Itemization of total monthly payment – The payments or range of payments must be itemized as follows: The amount payable for principal and interest; the amount payable for mortgage insurance; the amount payable into an escrow account; and the total periodic payment as the sum of the three components
1	Estimated Taxes, Insurance & Assessments	<ul style="list-style-type: none"> • Heading of the table – “Estimated Taxes, Insurance & Assessments” • Sum of estimated taxes, insurance and assessments, even if no escrow account for the payment of some or all of such charges will be established • A statement as to whether some of the amounts shown will be paid by the creditor using escrow funds • A statement that these amounts can increase over time • A statement that the borrower must pay separately any costs that are not paid out of escrow funds • A reference to additional information on the escrow account at page 4 of the form

Page	Content Requirements	Description
1	Costs at Closing	<ul style="list-style-type: none"> • Heading of the table – “Costs at Closing” • Closing Costs – The net of: Loan Costs, Other Costs, and Lender Credits; with disclosure of each amount; and a reference to more detailed information at page 4 • Cash to Close – The Estimated Cash to Close computed at page 2; statement that the amount includes Closing Costs, and reference to more detailed information at page 4. An alternate table may be substituted for transactions that do not have a seller
2	Closing Cost Details	<ul style="list-style-type: none"> • Master heading of the page – “Closing Cost Details”
2	Loan Costs	<ul style="list-style-type: none"> • Heading of the table – “Loan Costs” • Five columns stating whether the charge was borrower-paid at or before closing, seller-paid at or before closing, or paid by others, for all costs listed in the table • Origination Charges – itemization and subtotal of each amount that the borrower will pay to each creditor and loan originator for originating and extending the credit, including points paid (disclosed as a dollar amount as well a percentage of the loan) • Services The Borrower Did Not Shop For – Itemization and subtotal of services that the consumer did not shop for (i.e., Appraisal, Credit, Flood, Tax status) and that were provided by persons other than the creditor or mortgage broker. • Services The Borrower Did Shop For – Itemization and subtotal of amounts that the borrower will pay for services the borrower shopped for: Title, Survey, and Pest inspection • Total Loan Costs – Sum of Origination Charges, Services the borrower did not shop for, and Services the borrower did shop for • An addendum to this section may not be used for any subsection except “Services the borrower did shop for”, if the amounts in other sections cannot be itemized they should be disclosed in the aggregate amount as “Additional Charges” at the end of the subsection
2	Other Costs	<ul style="list-style-type: none"> • Heading of the table – “Other Costs” • Taxes and Other Government Fees – Amounts paid to state and local governments, itemized as: recording fees and taxes, not including transfer taxes, and transfer taxes • Prepays – Amounts to be paid by the borrower in advance of the first payment itemized as: homeowners insurance, mortgage insurance, prepaid interest, property taxes, items not charged to borrower, and up to three additional items • Initial Escrow Payment at closing – amount that the borrower is expected to reserve for escrow, itemized as: homeowners insurance, mortgage insurance, property taxes, any amount not charged to the borrower, as well as up to four additional fields • Other – Up to five descriptive fields detailing additional amounts in connection with the transaction • Total Other Costs – Sum of Taxes and other government fees, Prepays, Initial escrow payment, and Other

Page	Content Requirements	Description
2	Total Closing Costs	<ul style="list-style-type: none"> Total Closing Costs – The sum of: Total Loan Costs and Total Other Costs, less any Lender Credits For both Loan Costs and Other Costs, costs must be listed in the order prescribed and, otherwise, in alphabetical order; an addendum is allowed for additional items, the amount must be disclosed as “Additional Charges”
3	Calculating Cash to Close	<ul style="list-style-type: none"> Heading of the table – “Calculating Cash to Close” Statement: “Use this table to see what has changed from your Loan Estimate.” Columns captioned: Loan Estimate, Final, and Did this change?, reflecting amounts disclosed in Loan Estimate, final amounts and a Yes/No with respect to change, with a reference to the appropriate detail for any response of Yes A statement regarding any increases in closing costs that exceed allowable tolerances, and lender credit for any excess amounts, if applicable Total amount of cash needed from the borrower to close the loan itemized into the following components: total closing costs, closing costs paid before closing, closing costs financed (paid from your loan amount), down payment/ funds from borrower, deposit, funds for the borrower, seller credits, and adjustments and other credits, and Cash to close For transactions without a seller the fields are: Loan amount, Total closing costs, Closing costs paid before closing, Total payoffs and payments, and Cash to Close
3	Borrowers Transaction	<ul style="list-style-type: none"> Master heading for table – “Summaries of Transactions” Two separate columns: “Borrower’s Transaction” and “Seller’s Transaction” Borrowers Transaction – includes: <ul style="list-style-type: none"> Due from Borrower at Closing – Itemization of amounts due from borrower (amount due from borrower at closing (e.g., sale price of the property, sale price of any personal property included in sale, closing costs paid at closing), adjustment for items paid by seller in advance of closing, city/town taxes, county taxes, and assessments), other adjustments; and Paid Already by or on Behalf of Borrower at Closing – Itemization of amounts already paid by or on behalf of the borrower (sale price of property, sale price of any personal property included in sale, adjustment for items paid by seller in advance, city / town taxes, county taxes, and assessments) Calculation – Sum of Due from Borrower at Closing and Paid Already by or on Behalf of Borrower at Closing Seller’s Transaction includes: <ul style="list-style-type: none"> Due to Seller at Closing – Includes sale price of property and sale price of any personal property included in sale. Due from Seller at Closing – Includes excess deposit, closing costs paid at closing, existing loan assumed or taken subject to, payoff of first mortgage loan, payoff of subordinate mortgage loans, seller credit, adjustments for items unpaid by seller, city/town taxes, county taxes, and assessments Calculation – Sum of Due to Seller at Closing and, Due from Seller at Closing Items paid outside of closing funds – items should be marked “P.O.C.” and include a statement of the party making the payment

Page	Content Requirements	Description
4	Additional Information About this Loan	<ul style="list-style-type: none"> Master heading of the page – “Additional Information About this Loan”
4	Loan Disclosures	<ul style="list-style-type: none"> Heading of the section – “Loan Disclosures” Assumptions – A statement of whether the loan can be assumed or not Demand Feature – details whether the legal obligation allows the creditor to demand early repayment of the loan Late Payment – A statement that details any charge to the borrower for a late payment, stated as dollar amount or percentage Negative amortization –statement whether regular periodic payments will cause the principal balance to increase Partial Payment Policy – states the policy for payments received that are less than the periodic payment; and statement that if the loan is sold, the new lender may have a different policy Security Interest – a statement that the borrower is granting security interest in the property, but may lose it if periodic payments are not made Escrow Account – A statement that the creditor may be liable for penalties and interest if it fails to make a payment for any cost for which the escrow account is established, a statement that the consumer would have to pay such costs directly in the absence of the escrow account; and, if an escrow account is or will be established, the total amount that the borrower will have to pay into the escrow account over the first year, non-escrowed property costs over the first year, the initial escrow payment amount, and the monthly escrow payment
4	Adjustable Payment (AP) Table	<ul style="list-style-type: none"> Heading of the table – “Adjustable Payment (AP) Table” If the periodic payment may change not in relation to interest rate, an additional table must be added with the following information: Interest only payment, Optional payment, Step payment, Seasonal payment, Principal and interest payment
4	Adjustable Interest Rate (AIR) Table	<ul style="list-style-type: none"> Heading of the table – “Adjustable Interest Rate (AIR) Table” If the interest rate of the loan can increase after consummation, another table must be included with the following information: Index and margin, Increase in interest rate, Initial interest rate, Minimum and maximum interest rate, Frequency of adjustments, and Limits on interest rate changes

Page	Content Requirements	Description
5	Loan Calculations	<ul style="list-style-type: none"> • Heading of the table – “Loan Calculations” • Total of Payments – The dollar amount of all payments the borrower will make over the life of the loan • Finance Charge – Expressed as a dollar amount and including the following statement: “The dollar amount the loan will cost you” • Amount financed – Expressed as a dollar amount and including the following statement “Loan amount available after paying your upfront finance charge” • Annual Percentage Rate – Including the statement “Your costs over the long term expressed as a rate. This is not your interest rate.” • Total Interest Percentage (TIP) – Including a statement “The amount of interest that a consumer will pay over the life of the loan expressed as a percentage of the credit extended”
5	Other Disclosures	<ul style="list-style-type: none"> • Heading of the section – “Other Disclosures” • Appraisal – a statement as to the availability of the appraisal to the borrower • Contract Details – a statement referring the borrower to the appropriate loan document and security instrument for information about non-payment and what constitutes default • Liability after foreclosure – a brief statement of whether, and the conditions under which, the consumer may remain responsible for any deficiency after foreclosure under applicable state law, a brief statement that certain protections may be lost if the consumer refinances or incurs additional debt on the property, and a statement that the consumer should consult an attorney for additional information • Refinance – the statement “Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan.” • Tax Deductions – a statement that, if the extension of credit exceeds the fair market value of the property, the interest on the portion of the credit extension that is greater than the fair market value of the property is not tax deductible for Federal income tax purposes and a statement that the consumer should consult a tax adviser for further information
5	Questions notice	<ul style="list-style-type: none"> • In a separate notice labeled “Questions ?”, a statement informing the borrower to use the lender/mortgage broker contact information and the CFPB website for more information, and complaints
5	Contact Information	<ul style="list-style-type: none"> • Heading of the table – “Contact Information” • For each lender, mortgage broker, real estate broker, and settlement agent, include: name; address; NMLS ID or state license ID, as applicable; and the primary contact person and the contact person’s NMLS ID or state license ID, as applicable; email; and phone

Page	Content Requirements	Description
5	Signature Statement	<ul style="list-style-type: none"> • Either of two approaches, at the lender's option • Option 1 – Under a section labeled "Confirm Receipt," a line for signature of the consumers in the transaction, and the statement: By signing, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form." • Option 2 – No signature line and the following statement: "You do not have to accept this loan because you have received this form or signed a loan application."

For more information

PwC Consumer Finance contacts

Roberto Hernandez

Principal

roberto.g.hernandez@us.pwc.com

940 367 2386

Martin Touhey

Principal

martin.e.touhey@us.pwc.com

206 790 8751

Annie Liao

Senior Manager

annie.liao@us.pwc.com

646 256 1825

Greer Allgood

Senior Manager

greer.l.allgood@us.pwc.com

571 329 3002

William Laforet

Manager

william.laforet@us.pwc.com

917 837 5898

PwC Regulatory contacts

Jeff Lavine

Partner

jeff.lavine@us.pwc.com

703 918 1379

Anthony Ricko

Managing Director

anthony.ricko@us.pwc.com

978 692 1701

Bruce Oliver

Director

bruce.oliver@us.pwc.com

703 918 6990

www.pwc.com/consumerfinance
www.pwcregulatory.com

Follow us on Twitter @PwC_US_FinSrvcs