

Summary of the final rule amending escrow requirements under the Truth in Lending Act (Regulation Z)

January 10, 2013

In response to the recent mortgage crisis, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) to strengthen certain consumer protections under existing law. The Bureau of Consumer Financial Protection (Bureau) is issuing this final rule to implement provisions of the Dodd-Frank Act requiring creditors to establish escrow accounts for certain mortgage transactions to help ensure that consumers set aside funds to pay property taxes, and premiums for homeowners insurance, and other mortgage-related insurance required by the creditor. The final rule takes effect on June 1, 2013.

The final rule has three main elements:

- As directed by the Dodd-Frank Act, the rule amends existing regulations that require creditors to establish and maintain escrow accounts for at least one year after originating a “higher-priced mortgage loan” to require generally that the accounts be maintained for at least five years.
- The rule creates an exemption from the escrow requirement for small creditors that operate predominately in rural or underserved areas. Specifically, to be eligible for the exemption, a creditor must: (1) make more than half of its first-lien mortgages in rural or underserved areas; (2) have an asset size less than \$2 billion; (3) together with its affiliates, have originated 500 or fewer first-lien mortgages during the preceding calendar year; and (4) together with its affiliates, not escrow for any mortgage it or its affiliates currently services, except in limited instances. Under the rule, eligible creditors need not establish escrow accounts for mortgages intended at consummation to be held in portfolio, but must establish accounts at consummation for mortgages that are subject to a forward commitment to be purchased by an investor that does not itself qualify for the exemption.
- Finally, the rule expands upon an existing exemption from escrowing for insurance premiums (though not for property taxes) for condominium units to extend the partial exemption to other situations in which an individual consumer’s property is covered by a master insurance policy.

You can contact the Bureau’s Office of Regulations by phone to ask questions on how to interpret or apply the Bureau’s regulations at (202) 435-7700.