

**SMALL BUSINESS REVIEW PANEL FOR
TILA-RESPA INTEGRATION RULEMAKING**

**OUTLINE OF PROPOSALS UNDER CONSIDERATION AND
ALTERNATIVES CONSIDERED**

I. INTRODUCTION

- For more than thirty-five years, two Federal laws (the Truth in Lending Act or “TILA,” and the Real Estate Settlement Procedures Act or “RESPA”) have required lenders and settlement agents to give to consumers who take out a mortgage loan different but overlapping disclosure forms regarding the loan’s terms and costs.¹ This duplication has long been recognized as inefficient and confusing for consumers and industry. As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. 111-203, approved July 21, 2010) (“Dodd-Frank Act”),² the Consumer Financial Protection Bureau (“CFPB”) is proposing to resolve this problem by combining the disclosures. The Dodd-Frank Act establishes two goals for the consolidation: to improve consumer understanding of mortgage loan transactions; and to facilitate industry compliance with TILA and RESPA.
- The CFPB has prepared this summary of the proposals under consideration to assist the Small Business Review Panel convened under the Small Business Regulatory Enforcement Fairness Act (or “SBREFA”) and the small entities that advise that panel. The summary serves to facilitate the SBREFA panel process and, accordingly, focuses in part on the benefits and costs of the proposals under consideration for small entities. It is important to note, however, that the proposals under consideration are expected to have substantial benefits for consumers. Some examples of potential consumer benefits are provided in this summary for context, but these examples are not exhaustive and are intended to be illustrative only.
 - The CFPB has been working on redesigning the disclosure forms to make them simpler and more comprehensible, and the design of prototype forms under consideration has been refined to incorporate extensive consumer and industry feedback gathered through online tools and one-on-one testing across the country. By conveying information on key loan terms clearly, the redesigned disclosure forms may improve the ability of consumers to shop for and compare mortgage terms across loan offers and improve their understanding of mortgage loan transactions.

¹ TILA (Pub. L. 90-321, approved May 29, 1968; 82 Stat. 146) is codified at 15 U.S.C. 1601 *et seq.* (<http://143.231.180.80/view.xhtml?path=/title15/chapter41>).

RESPA (Pub. L. 93-533, approved December 22, 1974; 88 Stat. 1724) is codified at 12 U.S.C. 2601-2617 (<http://143.231.180.80/view.xhtml?path=/title12/chapter27>).

² Dodd-Frank Act, secs. 1032(f), 1098, and 1100A (<http://www.gpo.gov/fdsys/pkg/PLAW-111publ203/pdf/PLAW-111publ203.pdf>). Also attached as **Attachment A**.

- The proposals under consideration would also seek to improve borrowers' ability to shop by more clearly delineating between estimates regulated by TILA and RESPA and non-binding preapplication estimates.
- Further, the proposals under consideration may reduce the magnitude and frequency of changes in costs between application and closing and may decrease the likelihood that consumers will face unexpected changes in costs due to "bait and switch" tactics.
- Consistent with SBREFA, this summary provides a preliminary, qualitative assessment of the potential benefits and costs to the types of small businesses that would be subject to the proposals under consideration—namely, mortgage lenders (such as community banks and credit unions), mortgage brokers, and settlement agents. Drawing in part on information gained through the SBREFA panel process, the CFPB will publish with the proposed rule more extensive analysis of the benefits and costs to consumers and firms and of the impacts on small entities specifically.
- The integration of TILA and RESPA mortgage disclosure forms follows on the 2008 revisions by the Department of Housing and Urban Development ("HUD") to the RESPA rules and disclosure forms ("2008 RESPA rule"), which took effect in 2010. Some of the objectives of that rule and the CFPB's proposals under consideration are broadly similar. However, the details of the 2008 RESPA rule and the CFPB's proposals under consideration differ substantially and occur in very different contexts. Thus, although HUD conducted an extensive analysis to forecast the effects of the 2008 rule, it is difficult to extrapolate the effects of the CFPB's proposals under consideration based on that earlier forecast.³
 - For example, though the 2008 RESPA rule substantially modified the GFE and HUD-1 forms to be more similar to one another, the revisions were less extensive than the integration of the TILA and RESPA forms mandated by the Dodd-Frank Act. At the same time, the 2008 RESPA rule did not reduce the number of disclosure forms provided, which the proposals under consideration would do.
 - The 2008 RESPA rule also imposed for the first time limitations on increases in the settlement costs estimated in the GFE. In contrast, the proposals under consideration would tighten those limitations somewhat under limited circumstances.
 - HUD also necessarily made strong assumptions in forecasting the 2008 RESPA rule's effects and noted that, in some instances, the effects were unknown.⁴ Several questions that the CFPB is posing to the small entity representatives

³ The estimated impacts of the 2008 RESPA rule are discussed in detail in HUD's RESPA Regulatory Impact Analysis and Initial Regulatory Flexibility Analysis, FR-5180-F-02 (the "HUD Impact Analysis") (<http://www.hud.gov/offices/hsg/ramh/res/impactanalysis.pdf>).

⁴ For example, referring to the time cost of employees learning new loan origination software, HUD stated: "The actual amount of time required to familiarize oneself with the new software is unknown." HUD Impact Analysis, p. 6-39. HUD similarly stated that the amount of legal services required and cost of training employees on the new GFE was unknown. *Id.* at pp. 6-40 and 6-41.

(SERs)⁵ are intended to gauge the actual costs of the changes small entities made following the 2008 RESPA rule. The CFPB will consider any specific information that the SERs are able to provide in estimating the potential costs to small entities of implementing the proposals under consideration.

- Finally, the earlier HUD forecast could not account for changes in the industry that have occurred since 2008, including changes that occurred in the course of implementing the 2008 RESPA rule itself. For example, to the extent that the 2008 RESPA rule prompted more lenders to move to electronic recordkeeping or automated compliance systems, their implementation costs for the proposals now under consideration by the CFPB could be significantly different than for implementation of the earlier rule. Moreover, lenders' experiences with the current tolerance framework may affect the amount of legal advice they seek regarding further revisions to tolerances. Several questions that the CFPB is posing to the SERs are intended to gauge changes that have occurred since the 2008 RESPA rule and their impact on implementation of the proposals under consideration.

The CFPB thus has considered the HUD Impact Analysis and used it to help inform the CFPB's own preliminary analysis and the questions for the SERs. However, for the reasons discussed above, the CFPB does not believe the HUD Impact Analysis necessarily forecasts the potential costs and benefits to SERs from the proposals now under consideration.

II. STATEMENT OF OBJECTIVES AND LEGAL BASIS

- The Dodd-Frank Act requires the CFPB to propose rules and forms combining certain TILA and RESPA disclosures for loans subject to either law or to both laws by July 21, 2012. The CFPB plans to meet this mandate by proposing amendments to Regulation X, which implements RESPA, and Regulation Z, which implements TILA.⁶
 - In connection with any closed-end credit transaction secured by a consumer's dwelling and subject to RESPA, TILA and Regulation Z require creditors to provide good faith estimates of loan terms (such as the annual percentage rate or "APR") within three business days after receiving the consumer's mortgage application (the "early TIL"). If the APR on the early TIL becomes inaccurate, TILA requires the creditor to provide a corrected disclosure at least three business days before closing (the "final TIL"). In certain circumstances, TILA imposes civil liability for violations of these disclosure requirements and provides for administrative enforcement by

⁵ Questions designed to assist SERs in participating in the SBREFA panel process are set out in a separate document entitled "Discussion Issues for Small Entity Representatives."

⁶ Regulation X is codified in 12 CFR part 1024 (<http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=527bcc8f016e5c387a75a560fd8841e9&rgn=div5&view=text&node=12:8.0.2.14.17&idno=12>).

Regulation Z is codified in 12 CFR part 1026 (<http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=b77ba4a55e2cc08bf5cc69ad5413a536&rgn=div5&view=text&node=12:8.0.2.14.18&idno=12>).

appropriate agencies, including the CFPB.

- In connection with any federally related mortgage loan,⁷ RESPA and Regulation X require that lenders provide a good faith estimate of the amount or range of charges for certain settlement services the borrower is likely to incur in connection with the settlement (such as fees for an appraisal or a title search) and related loan information within three days after receiving the consumer's application (the "Good Faith Estimate" or "GFE"). RESPA also requires that "the person conducting the settlement" (typically the settlement or closing agent) provide the consumer with a completed, itemized statement of settlement charges at or before consummation of the loan (the "HUD-1 settlement statement"). RESPA does not impose civil liability for violations of these disclosure requirements, but administrative enforcement by appropriate agencies is available.
- The CFPB is planning to combine the disclosures that consumers receive shortly after application (the early TIL and the GFE) and the disclosures that consumers receive at or before closing (the final TIL and the HUD-1 settlement statement). The proposals under consideration by the CFPB would apply only to closed-end credit transactions (*i.e.*, home equity lines would not be covered) and would not apply to reverse mortgages.
- The Dodd-Frank Act also made several amendments to the disclosure requirements in TILA and RESPA. In particular, the Dodd-Frank Act amended TILA to require the creditor to disclose in the early and final TIL the aggregate amount of settlement charges provided in connection with the loan, which was previously disclosed only by the settlement agent in the RESPA-required HUD-1 settlement statement.

III. OUTLINE OF PROPOSALS UNDER CONSIDERATION

A. Integrated TILA and RESPA Disclosures

- Through extensive one-on-one testing and online feedback from consumers and industry, the CFPB is developing simpler, integrated disclosure forms that may help consumers to better understand mortgage transactions and to select the loan that best fits their needs.
 - The "Loan Estimate" would be provided within three business days after application and replace the early TIL and GFE. This disclosure would summarize the key loan terms and estimated loan and settlement costs for consumers and can be used by consumers to compare different loans. See **Attachments B-1** and **B-2** for alternative prototypes.⁸

⁷ RESPA defines "federally related mortgage loan" broadly to encompass virtually any purchase money or refinance loan that is secured by a first or subordinate lien on residential real property designed principally for the occupancy of from one to four families.

⁸ **Attachment B-1** was tested in Philadelphia, Pennsylvania, in January 2012, and **Attachment B-2** was tested in Chicago, Illinois, in August 2011. Both forms were tested with consumers and lenders. Among other differences,

- The “Settlement Disclosure” would be provided to consumers prior to the closing of the loan transaction and replace the final TIL and HUD-1. In addition to summarizing the final loan terms and costs, this disclosure would provide consumers with a detailed accounting of the transaction. See **Attachments C-1** and **C-2** for alternative prototypes.⁹
- The CFPB has conducted one-on-one testing of the forms in 8 cities across the country with more than 75 consumers and more than 15 industry participants.¹⁰ In addition, the CFPB’s Know Before You Owe website has received over 27,000 remarks on the prototype disclosures.¹¹ After each round of testing and online input, the CFPB has used the feedback to refine and improve the forms.
- TILA authorizes the CFPB to publish model forms for the TILA disclosures. In contrast, RESPA authorizes the CFPB to require the use of standard forms (*e.g.*, the prescribed GFE and HUD-1 settlement statement forms). Model forms benefit lenders by providing them with safe harbors for complying with disclosure obligations, while preserving flexibility for lenders to vary from the model so long as they adhere to the regulation. Standard forms allow less flexibility for lenders but provide consistency for both consumers and lenders. In light of these considerations, the CFPB is considering whether to propose a rule that requires use of standard forms under RESPA for the Loan Estimate and Settlement Disclosure for mortgage loan transactions that are subject to RESPA. Transactions that are subject only to TILA would not be required to use the model forms, consistent with the provisions of that statute.

Attachment B-1 itemizes the closing costs on page 2, while **Attachment B-2** groups certain categories of closing costs together, similar to how closing costs are disclosed on the current GFE form. The CFPB has not prepared a prototype for every possible set of loan terms but plans to provide extensive samples with the proposed and final rules.

⁹ These prototypes were tested with consumers, lenders, and settlement agents in Philadelphia, Pennsylvania, in January 2012. These have been designed, in part, to help consumers compare the final costs and terms with the costs and terms in the Loan Estimate. In particular, the Loan Estimate and Settlement Disclosure prototypes have the same first page and organize closing costs in the same categories. Among the differences between the two Settlement Disclosure prototypes, pages 2 and 3 of **Attachment C-1** contain line numbers in the “Summaries of Transactions” and “Closing Cost Details” sections (similar to the current HUD-1 settlement statement), while the same sections on pages 2 and 3 of **Attachment C-2** do not have line numbers. Also, the “What Changed?” charts on page 2 of **Attachment C-1** and page 3 of **Attachment C-2**, highlighting the differences between the estimated and final amounts on the Loan Estimate and the Settlement Disclosure, contain varying levels of detail. Finally, note that these two prototypes reflect the current rules in Regulation X regarding increases in closing costs between initial and final disclosures, rather than the proposals under consideration for this rulemaking, which are discussed below in Section III.C.

¹⁰ Testing has been conducted in Baltimore, Maryland; Los Angeles, California; Chicago, Illinois; Enfield, Connecticut; Albuquerque, New Mexico; Des Moines, Iowa; Birmingham, Alabama; and Philadelphia, Pennsylvania.

¹¹ Examples of consumer and industry responses to the prototypes of the disclosures can be seen in the CFPB blog, including at: www.consumerfinance.gov/know-before-you-owe-go; www.consumerfinance.gov/13000-lessons-learned; and www.consumerfinance.gov/know-before-you-owe-its-closing-time.

Potential Impacts on Small Entities

Benefits

- The CFPB believes that reducing the number of TILA and RESPA disclosures, integrating the disclosure forms, and clarifying conflicting or ambiguous regulatory requirements will likely reduce burdens on an ongoing basis on all parties involved with the residential mortgage process, including small entities.
- Replacing the current four required disclosure forms (*i.e.*, the early TIL, the GFE, the final TIL and the HUD-1 settlement statement) with two integrated forms (*i.e.*, the Loan Estimate and the Settlement Disclosure) may reduce the burden of coordinating and producing disclosures.
- The integrated forms require a single method of determining similar disclosed amounts that are calculated differently today under TILA and RESPA, which may further reduce the burden of producing the disclosures.¹²
- As discussed above, the integrated disclosure forms are being developed through extensive one-on-one testing and online feedback from consumers and industry. The incorporation of this feedback into the forms design will yield simpler, more comprehensible, and more effective forms, which, in turn, may reduce the time spent by lenders answering borrowers' questions. Moreover, the uniform calculations (noted above) may reduce time lenders spend reconciling estimates and explaining them to borrowers.
- Each of these considerations—uniform calculations, reduced number of disclosure forms, and reduced time answering borrower questions—may reduce the time and therefore the cost of producing and conveying the disclosures. The questions for the SERs address the costs (including time) of preparing the current TILA and RESPA forms and the factors that may affect the costs (including time) of preparing the new forms.

Costs

This section discusses potential one-time and ongoing costs for small entities associated with the transition to and use of the integrated mortgage disclosure forms.

- Implementing the new forms would presumably require new or updated software and compliance systems, as well as associated costs for training employees. These would be one-time costs. However, it is possible that routine systems updates would at least partially mitigate these one-time costs since the costs would, in part, already be budgeted. Therefore, to help the CFPB understand the costs attributable to the new forms, the SERs are being asked whether (a) they would expect to have otherwise incurred these one-time costs due to software or systems changes that would occur even if the proposals under consideration were not put in place or (b) these costs would be mitigated by using vendors that offer free updates and training to small entities.

¹² For example, RESPA requires that the disclosed monthly payment include monthly amounts other than principal and interest, while TILA strictly requires that the disclosed monthly payment only include principal and interest.

- The proposals under consideration are not, by themselves, anticipated to require subsequent updates of software and compliance systems beyond the initial update. To the extent any subsequent upgrades or training are required, however, they would presumably be in lieu of upgrades and training that would already have occurred to comply with the current rules. A question for the SERs is how the proposals under consideration may change these ongoing costs.
- Entities may also incur one-time costs in obtaining legal advice regarding the integrated forms, which will vary by jurisdiction.
 - In the HUD Impact Analysis, HUD noted that the amount and cost of legal advice that entities might incur as a result of the 2008 RESPA rule was unknown.¹³ HUD assumed legal advice cost \$200 per hour on average and that lenders sought ten hours of legal advice on average.¹⁴ The CFPB's questions to SERs attempt to gauge the costs of legal advice that small entities actually incurred as a result of the 2008 RESPA rule and whether the costs of the legal advice stemming from the integrated disclosure forms under consideration would be higher, lower, or about the same as the realized costs of the 2008 RESPA rule.
- The Dodd-Frank Act mandated a number of new disclosure items, such as a negative amortization statement and a total interest percentage ("TIP") disclosure, but these new disclosures are not expected to have a significant ongoing cost. Most of these disclosures are based on information that should be readily ascertainable by the entity providing the disclosure.
 - Disclosure of the lender's cost of funds might be more difficult to calculate, particularly since the source of funds may not be known when the disclosure is provided. Therefore, the proposal under consideration would instead require the lender to disclose a publicly available cost of funds index.

B. Provision of the Loan Estimate

- Under TILA and RESPA, a lender or mortgage broker is not required to provide the good faith estimates of loan terms and settlement costs in the early TIL and GFE until it has received an "application."

¹³ HUD Impact Analysis, p. 6-40.

¹⁴ This estimated cost calculation would be proportional to the assumed average cost of legal services and the assumed average hours of legal advice that lenders sought. The references to HUD's estimates of average legal-services cost of \$200 per hour and average need for ten hours of legal advice are intended to roughly illustrate the potential order of magnitude of such costs and should not be interpreted as an indication of the CFPB's concurrence with those estimates. Legal fees would vary based on a variety of factors, such as the market rate for legal services in the small entity's jurisdiction, whether counsel is sought on a one-time basis or is on retainer, and whether the small entity is able to have legal questions answered in-house or by utilizing associational membership resources.

- Under the current regulations, the receipt of the following information by the lender or mortgage broker constitutes receipt of an “application”: (1) borrower’s name; (2) monthly income; (3) social security number to obtain a credit report; (4) the property address; (5) an estimate of the value of the property; (6) loan amount sought; and (7) any other information deemed necessary by the lender.¹⁵
- Concerns have been raised that the early TIL and GFE are often provided too late in the process of shopping for a mortgage loan to help consumers decide which loan is best for them.

1. Definition of “Application”

- One source of these concerns is that the seventh item in the regulatory definition of “application” (*i.e.*, any other information deemed necessary by the lender) could allow lenders and mortgage brokers to delay providing the early TIL and GFE until relatively late in the loan process by delaying collection of information deemed “necessary.” For example, the current rules would allow a lender to delay providing a GFE while it gathered more information about the property or the consumer’s assets and liabilities. Any delay in receiving the GFE may limit a borrower’s ability to effectively shop, particularly if the borrower must close on the loan by a particular date.
- The current rules encourage lenders and mortgage brokers to provide the good faith estimates early in the loan process by prohibiting lenders from collecting any fees from a consumer (other than a credit report fee) until the estimates are provided.¹⁶ In order to further encourage early provision of these estimates, the CFPB is considering a proposal that would remove the seventh item (“any other information deemed necessary by the lender”) from the definition of “application.” The CFPB will seek input and information on whether this change would result in less accurate estimates.

Potential Impacts on Small Entities

- Eliminating lenders’ and brokers’ ability to wait to provide a good faith estimate until after they receive “any other information deemed necessary” could increase the burden on lenders and brokers. In particular, a lender or broker that receives the required six items under the revised definition but prefers to seek additional information before issuing disclosures would have only three days to do so before issuing a Loan Estimate (in contrast to the current regulations, which allow the lender or broker to gather such additional information before the three-day window comes into play).

¹⁵ Regulation X (implementing RESPA) defines “application” in 12 CFR 1024.2. Regulation Z (implementing TILA) adopts the Regulation X definition, in 12 CFR part 1026, Supplement I (Comment 19(a)(1)(i)-3).

¹⁶ 12 CFR 1024.7(a)(4) and (b)(4) (Regulation X) and 12 CFR 1026.19(a)(1)(ii) (Regulation Z).

Alternatives Considered

- The CFPB has also considered removing additional items from the regulatory definition of “application,” so as to limit the definition to only the information required to obtain a credit report and to estimate the loan-to-value ratio. However, lenders may need those additional items to provide accurate estimates.

2. Preapplication Estimates

- Another source of concern is that many lenders and mortgage brokers provide consumers preliminary estimates of loan terms and settlement costs that are not explicitly regulated by TILA or RESPA before providing consumers with the estimates governed by those statutes (the early TIL and GFE).¹⁷ Consumers can benefit from gathering these preliminary estimates during the shopping process. But consumers may select a loan mistakenly believing that the preliminary estimates have the same legal significance as the TILA and RESPA disclosures. As a result, consumers might curtail shopping because a preliminary estimate offers attractive loan terms, and they may be surprised by changes in the actual loan terms offered if they believed the preliminary estimate was binding.
- Accordingly, the CFPB is considering proposing to require that any preapplication, consumer-specific written estimate of loan terms or settlement charges contain a prominent disclaimer indicating that the document is not the Loan Estimate required by TILA and RESPA. This requirement would not apply to general advertisements.

Potential Impacts on Small Entities

- If small entities provide preapplication, consumer-specific loan estimates, the cost associated with adding the disclaimer language is expected to be de minimis, because the CFPB plans to provide a brief, standard statement for use by lenders and brokers, which should not require significant redesign of existing estimate materials or require additional pages.

C. Restrictions on Charging Higher Settlement Costs than Initially Disclosed

- HUD’s 2008 RESPA rule limits the circumstances in which a lender can charge the consumer more at closing than the lender estimated in the GFE provided to the consumer three business days after application.¹⁸
 - The lender’s charges for its own services, referred to here as “lender charges,” generally cannot exceed the lender’s estimates. This limitation is sometimes referred to as a “zero tolerance.”

¹⁷ The prevalence of lenders issuing worksheets is indicated by HUD addressing the practice in its Frequently Asked Questions regarding compliance with the 2008 RESPA rule. *See* <http://portal.hud.gov/hudportal/documents/huddoc?id=resparulefaqs422010.pdf> (p. 12, FAQs #35-36).

¹⁸ 73 Fed. Reg. 68,204 (Nov. 17, 2008), codified at 24 CFR 3500.7(e) (now 12 CFR 1024.7(e)).

- Charges for settlement services provided by third parties such as appraisals and title work, referred to here as “third-party charges,” generally cannot exceed the amounts estimated in the GFE by more than 10% in total. This limitation is sometimes referred to as a “10% tolerance.”
- The rule lists certain limited exceptions in which higher charges are permitted. For example, higher charges are permitted when the borrower requests a change, when the GFE expires, or when a valid change in circumstance occurs (such as when new information about the borrower or transaction is discovered). However, the lender must provide the consumer with a new GFE disclosing the higher cost.
- The 2008 RESPA rule addresses an important problem: it reduces the chance that consumers will be surprised shortly before closing by lender and third-party charges that are significantly higher than initially disclosed. The rule makes lenders provide consumers with more reliable upfront cost estimates by limiting the circumstances in which the actual costs can be higher than the estimates and requiring that consumers be notified when something causes costs to increase. Moreover, lenders must retain documentation of these “changed circumstances.” HUD intended the rule to make it easier for consumers to shop on the estimates and harder for an unscrupulous lender to provide low initial estimates and then reveal that the actual charges are higher right before closing, when the consumer may feel there is no option but to go through with the transaction.
- Some think the 2008 RESPA rule is too lax, others think that it is too restrictive, and many think that it is difficult to understand. The CFPB is considering proposals that would balance the objective of improving the reliability of the estimates lenders give consumers shortly after application, with the objective of preserving lenders’ flexibility to respond to unanticipated changes that occur during the loan process. Improving the reliability of the estimates may benefit consumers by improving their ability to compare loan terms and reducing the likelihood that they could face unexpected changes in costs due to “bait and switch” tactics.¹⁹
 - As noted above, the 2008 RESPA rule prevents a lender from charging more for its own services than the lender estimated in the GFE unless the lender can show that one of the exceptions applies (zero tolerance). However, charges for services such as appraisals and title work can exceed the estimates in the GFE by up to 10% at closing

¹⁹ There are longstanding concerns about the reliability of estimates given in the GFE. See, e.g., Board of Governors of the Federal Reserve System and HUD Joint Report to Congress Concerning Reform to the Truth in Lending Act and the Real Estate Settlement Procedures Act (July 1998), p. 20 (“Consumers report many instances in which the costs disclosed on the GFE were significantly lower than those actually charged at closing [and] . . . cases in which some fees charged at closing were completely left off the GFE. To the extent these discrepancies exist, they make the GFE unreliable as a shopping tool; consumers cannot effectively compare settlement service costs if they cannot rely on the costs that are initially disclosed.”) (<http://www.federalreserve.gov/boarddocs/rptcongress/tila.pdf>). Moreover, the HUD Impact Analysis noted HUD’s intent that the rule would balance “the flexibility originators need to properly underwrite, while *limiting bait-and-switch methods* whereby the originator uses the GFE to draw in a borrower and, after a significant application fee is paid or burdensome documentation demands are made, claims that a material change has resulted in a more expensive loan offering,” p. 3-80 (emphasis added).

without any such justification (10% tolerance). The CFPB believes that, in the cases described below, it may be appropriate to hold lenders to a higher standard when estimating the cost of these services.

- Specifically, the proposals under consideration by the CFPB would apply the zero tolerance to a larger range of charges. As a result, a lender would be required to retain documentation sufficient to show its supervisory agency that one of the exceptions applies whenever a cost for a service provided by a company that is owned by or affiliated with the lender proves to be higher than estimated in the GFE. Lenders should be better able to estimate the cost of services provided by a company they own or with which they are affiliated because of their knowledge of the company's business. In addition, applying a stricter standard to these services would address concerns that lenders could profit directly or indirectly from an unjustified 10% cost increase.
- Furthermore, the proposals under consideration would apply the zero tolerance and require the lender to show that an exception applies whenever a cost for a service provided by a company selected by the lender proves to be higher than estimated in the GFE. A company would be considered selected by the lender if consumers are required to choose only from a list of service providers prepared by the lender (*i.e.*, if consumers are not permitted to shop for their own provider). Lenders should be better able to estimate the cost of these services because of their experience with the providers they choose. In addition, it may be appropriate to hold lenders to a higher standard when they do not allow consumers to shop for their own provider.
- In contrast, for services provided by other companies, the proposals under consideration would leave in place the current rule allowing the actual cost to be up to 10% higher in the Settlement Disclosure.
- The proposals under consideration by the CFPB also would seek to reduce unnecessary compliance burden by resolving ambiguities in the rule. For example:
 - Many lenders say they believe that the current rule requires them to reissue a GFE every time they discover that the actual amount of a third-party charge exceeds the estimate in the GFE, even if the increase is less than 10%. As a result, lenders may be reissuing GFEs unnecessarily. This practice is not only burdensome for lenders but may harm consumers if the third-party charges can increase an additional 10% each time the GFE is reissued. The proposals under consideration would ensure that the rule does not require lenders to reissue the Loan Estimate unless and until the costs subject to the 10% limitation increase based on valid changes in circumstance by more than 10% in total. Furthermore, the proposals under consideration would protect consumers by ensuring that the 10% leeway provided to lenders applies only when the lender has reissued the Loan Estimate based on a valid change in circumstance.

- The 2008 RESPA rule permits lenders to use the average cost of a service in order to ease compliance burden. However, lenders have reported to the CFPB that the rule imposes accounting requirements that make this method too burdensome to use. The proposal would revise the rule to provide more guidance and to facilitate use of average cost pricing.
- Industry reports that inconsistency between RESPA and TILA terminology creates significant compliance burden because lenders must design systems and practices that comply with the requirements of both laws. For example, TILA establishes disclosure requirements for “creditors,” while RESPA establishes requirements for “lenders.” The proposals under consideration would reconcile these inconsistencies.
- HUD issued hundreds of Frequently Asked Questions to provide guidance regarding compliance with the 2008 RESPA rule. The proposals under consideration would further streamline and clarify the 2008 RESPA rule by incorporating that guidance into the regulation or official commentary to Regulation Z, as necessary and appropriate, and by making it clearer and easier to use.
- Finally, the proposals under consideration would seek to improve the CFPB’s ability to monitor the effectiveness of the 2008 RESPA rule, and the proposed amendments under consideration, by imposing new data retention requirements, which are described in more detail in Section III.E below.

Potential Impacts on Small Entities

Benefits

- Limiting increases in settlement costs for affiliated service providers and third party service providers for which consumers cannot shop may make it more difficult for unscrupulous actors to engage in “bait and switch” tactics, in which consumers are given low initial estimates and then charged higher prices at closing. This could benefit honest firms by reducing unfair competition.
- The proposals under consideration may ease compliance burden and mitigate the need for ongoing personnel training, legal consultation and similar expenses by eliminating ambiguities in the current rules.

Costs

- Because of ongoing relationships, lenders are in a better position to know the typical charges of affiliated firms and firms they engage repeatedly and require consumers to use. In some cases, however, the actual costs of providing settlement services might be higher than the lender anticipated.
 - Under Regulation X, the lender may reissue the GFE if any of the limited exceptions permitting higher charges at closing applies (*e.g.*, the borrower requests a change, the GFE expires, or a valid change in circumstance occurs, such as when new information about the borrower or transaction is discovered). Since the proposal

under consideration would subject additional categories of settlement costs to the zero tolerance, it is possible that at least some lenders would reissue GFEs more frequently than they do now based on increased assertions of an applicable exception to the regulation, which would increase burden (*e.g.*, printer and paper costs, storage costs, staff time).²⁰ As argued in the HUD Impact Analysis, any increase likely would be minimal in most cases, but the specific impact would vary depending on whether a lender currently uses fully automated systems.²¹ Based on its preliminary research, the CFPB believes that available compliance software likely offers the functionality to track the timing and reasons for changed circumstances.

- If the higher than expected costs of affiliates or of providers selected by the lender would not arise from a valid change as defined by regulation (*e.g.*, when new information about the borrower or transaction is discovered or when the borrower requests a change), the lender might have to absorb these costs. If this would occur frequently enough to materially raise lenders' operating costs, lenders would likely pass some or all of these increases on to consumers through other charges such as higher origination fees. Higher origination fees or other charges might place these lenders at a competitive disadvantage and, accordingly, strengthen the competitive position of lenders with costs that are lower and more reliable.

Alternatives Considered





- The CFPB has also considered the following alternatives:
 - Significantly narrowing the exceptions permitting increases in settlement charges in order to restrict the ability of a lender to charge more for its own services or for third-party settlement services than the lender initially estimated. However, the CFPB was concerned that this approach could prevent lenders from increasing settlement charges to reflect justifiable increases in costs.
 - Preserving the 2008 RESPA rule as-is. However, as discussed above, the CFPB believes that the rule can likely be improved by requiring lenders to provide consumers with more accurate estimates of settlement charges and reducing compliance burden for industry.

D. Provision of the Settlement Disclosure

- TILA and RESPA establish different timing requirements for disclosing final loan terms and costs to consumers and require different parties to provide the TILA and RESPA disclosure forms:

²⁰ Regulation X requires that loan originators document the reasons for provided revised GFEs, and retain such documentation for no less than three years after settlement.

²¹ HUD Impact Analysis, p. 6-46.

	TILA	RESPA
 3 Days After Application	Creditor must deliver or mail APR and other terms (early TIL) to consumer	Lender or broker must deliver or mail the GFE to consumer
 3 Days Before Closing	If actual APR exceeds APR as disclosed in early TIL beyond the tolerance, consumer must receive a revised disclosure from the <i>creditor</i>	
 1 Day Before Closing		Borrower can request inspection of a settlement statement that is based on information known to <i>settlement agent</i> at that time
 At or Before Closing	<i>Creditor</i> must provide final APR and other terms (final TIL) to consumer	<i>Settlement agent</i> provides the completed settlement statement to consumer

- In order to meet the Dodd-Frank Act’s mandate to integrate the disclosures required by TILA and RESPA, the proposals under consideration must reconcile these statutory differences.

1. *Timing of Settlement Disclosure*

- The CFPB is considering issuing a proposal to require delivery of the integrated Settlement Disclosure three business days before closing in all circumstances.
 - As a general matter, consumers would receive their final loan terms and settlement charges three days before closing. However, in order to prevent unnecessary closing delays, limited changes would be permitted after provision of the Settlement Disclosure to reflect common adjustments, such as changes to recording fees.
 - Reissuance of the Settlement Disclosure and an additional three-day waiting period would be required only if during the three days after issuance of the Settlement Disclosure: (a) the APR in the Settlement Disclosure increases by more than 1/8 of 1 percent (which is the current threshold for redisclosure under TILA); (b) an adjustable-rate feature, prepayment penalty, negative amortization feature, interest-only feature, balloon payment, or demand feature is added to the loan; or (c) the amount needed to close shown in the Settlement Disclosure increases beyond a specific tolerance (amount to be determined).

Potential Impacts on Small Entities

- Requiring that three business days elapse between the time the Settlement Disclosure is provided and the closing could result in closing delays if, for example, the consumer is under a contractual obligation to close by a particular date, which may have negative consequences for the lender and the settlement provider (*e.g.*, lost revenue if transactions fall through and legal exposure).²²
- The burden of the three-day requirement could fall disproportionately on small entities if they have less ability to ensure timely delivery of final charges. The SERs are being asked a series of questions regarding the specific impacts of this requirement.

Alternatives Considered

- The CFPB has also considered requiring provision of the Settlement Disclosure three business days before closing *only* when, after the Loan Estimate is given, the APR in the Loan Estimate increases by more than 1/8 of 1 percent or an adjustable-rate feature is added to the loan. In all other circumstances, the Settlement Disclosure would have been provided at or before closing. However, the CFPB is concerned that this approach would allow significant increases in the cash needed to close without sufficient notice to the consumer.²³
- In addition, the CFPB has considered expanding the current rules allowing consumers to waive the three-day waiting period in cases of bona fide personal financial emergency. However, the CFPB is concerned that such an expansion would enable lenders to pressure consumers into waiving the waiting period because consumers may be unwilling or unable to challenge a cost increase that occurs shortly before closing.

2. Responsibility for Providing the Settlement Disclosure

- The CFPB is considering proposing two alternative approaches for assigning responsibility for providing the integrated Settlement Disclosure to the consumer. The questions to SERs seek information on the costs associated with the alternative approaches.
 - **Alternative #1:** The lender would be solely responsible for delivering the Settlement Disclosure to the consumer.
 - **Alternative #2:** The lender would be responsible for preparing the TILA-required information on the Settlement Disclosure, and the settlement agent would be responsible for preparing the RESPA-required information. However, the lender and settlement agent would be jointly responsible for providing the consumer with an integrated Settlement Disclosure three days before closing.

²² As discussed above, limited changes would be permitted at closing to reflect common adjustments (*e.g.*, determination of recording fees) and last-minute negotiations between buyers and sellers.

²³ For example, assume a 30-year fixed rate \$220,500 mortgage loan with \$3,500 in finance charges. The APR disclosed on the Loan Estimate is 4.511%. For the APR to increase by more than 1/8 of 1% and thus trigger redisclosure, the finance charges would have to increase by \$3,145, to a total of \$6,645.

Potential Impacts on Small Entities of Alternative #1 (Delivery by Lender)

- This alternative would place greater liability risk and logistical burden on lenders. Lenders may need to hire additional staff and may incur legal costs in seeking advice regarding the liability of disclosing RESPA content on the Settlement Disclosure.
 - However, the Dodd-Frank Act amended TILA to require lenders to disclose in the early and final TILA disclosures the aggregate settlement costs provided in connection with the loan.²⁴ Thus, the incremental effect of this alternative is mitigated by the fact that, because of the statute, some of the burden would shift to lenders under either alternative.
- Shifting responsibility for delivering the Settlement Disclosure from settlement agents to lenders would likely alter settlement agents' role, but the exact impact is difficult to predict. Lenders and settlement agents already coordinate completion and provision of the current HUD-1 settlement statement. If lenders were responsible for providing the Settlement Disclosure, these relationships may need to be renegotiated or formalized, which could require personnel time and result in legal fees for outside counsel.
 - Lenders may be more likely to enter into affiliate relationships with service providers. The effect of these relationships on competing small-entity service providers is unknown. Further, if affiliate relationships were to become more common, smaller lenders may be placed at a competitive disadvantage.

Potential Impacts on Small Entities of Alternative #2 (Shared Responsibility for Delivery)

- It is difficult to assess the net impact of this alternative approach relative to the current set of rules because lenders and settlement agents already are legally and practically responsible for different components of the final disclosures.

Additional Alternatives Considered

- The CFPB has also considered making the settlement agent solely responsible for providing the Settlement Disclosure to the consumer. However, the CFPB understands that settlement agents may not have access to much of the information regarding loan terms that must be disclosed in the Settlement Disclosure.

E. Retention of Compliance Records

- Currently, creditors must retain evidence of compliance with Regulation Z for two years after the date on which a disclosure (such as the early or final TIL) was required to be given. In addition, lenders must retain copies of a completed HUD-1 settlement statement and related documents for five years after settlement and must retain documentation of any reason for reissuing the GFE for no less than 3 years after settlement.

²⁴ Section 1419 of the Dodd-Frank Act, adding section 128(a)(17) to TILA.

- Comprehensive data on the extent to which settlement costs and interest rates change between the initial and final disclosures will improve the CFPB's ability to monitor compliance with applicable requirements and to better protect consumers against potentially illegitimate increases in settlement costs and interest rates. Accordingly, the CFPB is considering proposing new data retention requirements for the Loan Estimate and the Settlement Disclosure. Specifically, lenders would be required to maintain standardized, machine-readable, electronic versions of the Loan Estimates and Settlement Disclosures they deliver to a consumer and the reasons for any changes to the information provided in those disclosures. A proposed retention period is to be determined.
- To reduce the burden on small entities, the CFPB is considering proposing to exempt them from new electronic data retention requirements. A question to the SERs addresses the types and amounts of costs that small entities might expect to incur from such a retention requirement.

Potential Impacts on Small Entities

Benefits

- Electronic records retention could reduce lenders' storage overhead costs, particularly if they do not utilize fully automated electronic systems currently. It also may allow them to adopt more efficient or systematic procedures for compliance or other purposes.

Costs

- The proposal that lenders retain standardized, machine-readable, electronic versions of the disclosures could result in potentially significant one-time costs to reconfigure or develop existing systems and software as well as ongoing software and systems costs.
- As noted above, the CFPB is considering exempting small entities from the new data retention requirements. Small entities' compliance costs would depend in part on the extent to which small entities already rely on electronic document processing and retention. Smaller entities may be more likely to not use fully automated electronic systems, and, thus, to face a greater burden from this requirement.²⁵ Small entities' compliance costs may be mitigated if, as a result of any new requirement, vendors developed new software and systems targeting these entities. The CFPB wishes to collect additional information about the costs small entities would incur to comply with such requirements.

F. Additional Proposals Under Consideration

1. Definition of Finance Charge

- The standard disclosure of the cost of credit under TILA is the APR, which is the finance charge expressed as a yearly rate. The finance charge is mostly interest, and also includes

²⁵ At the time of the 2008 RESPA rule, HUD noted that originators could retain documentation in a case binder, suggesting that paper documentation was common at that time. It is unknown whether, as a result of the 2008 RESPA rule or other developments, lenders' use of electronic record-keeping has increased.

certain one-time charges. TILA defines the finance charge broadly to include “any charge payable directly or indirectly by the consumer and imposed directly or indirectly by the creditor as an incident to or a condition of the extension of credit” and “does not include charges of a type payable in a comparable cash transaction.”

- Despite this broad definition, TILA and Regulation Z exclude many types of charges from the finance charge, especially for mortgage transactions. Concerns have been raised that these exclusions undermine the potential usefulness of the APR as a simple tool to compare the total cost of one loan to another, a basic purpose of TILA. In addition, these exclusions may encourage lenders to shift the cost of credit to excluded fees, which could be inefficient and also may increase regulatory burden and litigation risk.
- The CFPB is considering proposing to remove many of these exclusions, as the Board of Governors of the Federal Reserve System (FRB) proposed in 2009.²⁶ The table on the next page illustrates the FRB proposal:

²⁶ See 74 Fed. Reg. 43,232 (Aug. 26, 2009) (<http://edocket.access.gpo.gov/2009/pdf/E9-18119.pdf>).

Specific Exclusions from Finance Charge			
	TILA	Current Reg Z	2009 Proposal
Security interest related charges	Specifically excluded	Specifically excluded	Not excluded ²⁷
Fees for title search or title exam	Specifically excluded	Specifically excluded	Not excluded
Document preparation fees	Specifically excluded	Specifically excluded	Not excluded
Escrows for taxes and insurance	Specifically excluded	Specifically excluded	Not excluded
Notary fees	Specifically excluded	Specifically excluded	Not excluded
Appraisal/inspection fees	Specifically excluded	Specifically excluded	Not excluded
Credit report fees	Specifically excluded	Specifically excluded	Not excluded
Property insurance premiums	Specifically excluded if certain conditions are met	Specifically excluded if certain conditions are met	Specifically excluded if certain conditions are met
Closing agent charges	Specifically excluded, if certain conditions met	Specifically excluded, if certain conditions met	Not excluded
Voluntary credit insurance premiums	Specifically excluded, if certain conditions met	Specifically excluded, if certain conditions met	Not excluded
Voluntary debt cancellation or suspension fees	No specific exclusion	Specifically excluded, if certain conditions met	Not excluded
Charges for paying items that overdraw an account	No specific exclusion	Specifically excluded	Not excluded
Late fees/similar default or delinquency charges	No specific exclusion	Specifically excluded	Specifically excluded
Fees for participation in a credit plan	No specific exclusion	Specifically excluded	Not excluded
Application fee	No specific exclusion	Specifically excluded	Not excluded
Forfeited interest	No specific exclusion	Specifically excluded	Not excluded

²⁷ TILA and Regulation Z define finance charge broadly to include any charge payable directly or indirectly by the consumer and imposed directly or indirectly by the creditor as an incident to the extension of credit, but specifically exclude many charges. The FRB's 2009 proposal would have removed the exclusions for certain charges, thereby including them in the finance charge.

Potential Impacts on Small Entities

Benefits

- The revised definition of finance charge would likely reduce compliance burdens, regulatory uncertainty, and litigation risks for creditors who must provide accurate TILA disclosures.

Costs

- Implementing the new calculations would presumably require new or updated software and compliance systems, as well as associated costs for training employees. A question for the SERs is whether these costs would be mitigated by routine software and systems upgrades and the extent to which vendors would be likely to offer them, *e.g.*, free updates and training.
- Entities might incur one-time costs in obtaining legal advice regarding the changes to the calculations. A question to SERs asks about the expected cost of such legal advice.
- This proposal would likely result in increased APRs for many loans. As a result, more loans may cross federal and state high cost/high price loan thresholds, which in turn can trigger additional underwriting and other requirements.

2. Implementation Timing for New Disclosures Mandated by Dodd-Frank Act

- Title XIV of the Dodd-Frank Act amends TILA and RESPA to add new disclosures that must be provided in the Loan Estimate or Settlement Disclosure (*e.g.*, disclosure of escrow payment amounts and aggregate settlement charges). In addition, Title XIV adds other new mortgage disclosure requirements (*e.g.*, warnings regarding negative amortization and state anti-deficiency laws). Although the Dodd-Frank Act does not specifically include these new disclosures in the Loan Estimate and Settlement Disclosure, the CFPB believes these forms should include the new disclosures.
- Title XIV provides the regulations required by Title XIV or by amendments to enumerated consumer laws must be final by January 21, 2013. Those final rules would take effect not later than 12 months after the date of issuance. Any section of Title XIV for which final rules have not been issued by January 21, 2013 will take effect on that date by operation of law. Title XIV requires final regulations implementing these new mortgage disclosures to be issued by January 21, 2013, and provides that those final regulations must take effect not later than 12 months after that date (*i.e.*, not later than January 21, 2014). If final regulations are not issued by January 21, 2013, the Title XIV disclosures will take effect and become binding immediately.
- The CFPB believes that finalizing rules implementing the Title XIV disclosures simultaneously with the final TILA-RESPA rule would improve the overall effectiveness of the integrated TILA-RESPA disclosures. In addition, developing final rules simultaneously would reduce the burden on lenders since lenders would need to implement only one set of revised disclosure rules, rather than potentially needing to implement revised disclosure rules at least twice in a short period. However, it may not be possible to issue a final TILA-RESPA rule by January 21, 2013.

- Accordingly, the CFPB is considering a proposal to use its authority under TILA, RESPA, and the Dodd-Frank Act to exempt lenders from compliance with the Title XIV disclosure requirements temporarily until the TILA-RESPA disclosure rule takes effect.

IV. OTHER FEDERAL RULES

- As intended by the Dodd-Frank Act, the proposals under consideration would consolidate the overlapping and, in some cases, duplicative mortgage disclosure regulations under TILA and RESPA into a single set of requirements and resolve any conflicts between the two. The CFPB is not aware of any other federal regulations that duplicate, overlap, or conflict with the proposals under consideration.

V. POTENTIAL IMPACT ON COST OF CREDIT TO SMALL ENTITIES

- Section 603(d) of the Regulatory Flexibility Act requires the CFPB to consult with small entities regarding the potential impact of the proposals under consideration on the cost of credit for small entities and related matters.²⁸
- At this time, there is no evidence that the proposals under consideration would result in an increase in the cost of credit for small entities. The proposals under consideration only would apply to mortgage loans obtained by consumers primarily for personal, family, or household purposes. They would not apply to loans obtained primarily for business purposes.
- The CFPB, however, will seek the advice and recommendations of the SERs during the SBREFA outreach session regarding this issue.

²⁸ See 5 U.S.C. 603(d).

Attachment A

Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. 111-203, approved July 21, 2010)

Excerpts on Requirements for Integrated TILA-RESPA Mortgage Disclosures

SEC. 1032. DISCLOSURES.

* * * * *

(f) COMBINED MORTGAGE LOAN DISCLOSURE.—Not later than 1 year after the designated transfer date, the Bureau shall propose for public comment rules and model disclosures that combine the disclosures required under the Truth in Lending Act and sections 4 and 5 of the Real Estate Settlement Procedures Act of 1974, into a single, integrated disclosure for mortgage loan transactions covered by those laws, unless the Bureau determines that any proposal issued by the Board of Governors and the Secretary of Housing and Urban Development carries out the same purpose.

SEC. 1098. AMENDMENTS TO THE REAL ESTATE SETTLEMENT PROCEDURES ACT OF 1974.

The Real Estate Settlement Procedures Act of 1974 (12 U.S.C. 2601 et seq.) is amended—

* * * * *

(2) in section 4 (12 U.S.C. 2603)—

(A) in subsection (a), by striking the first sentence and inserting the following: “The Bureau shall publish a single, integrated disclosure for mortgage loan transactions (including real estate settlement cost statements) which includes the disclosure requirements of this section and section 5, in conjunction with the disclosure requirements of the Truth in Lending Act that, taken together, may apply to a transaction that is subject to both or either provisions of law. The purpose of such model disclosure shall be to facilitate compliance with the disclosure requirements of this title and the Truth in Lending Act, and to aid the borrower or lessee in understanding the transaction by utilizing readily understandable language to simplify the technical nature of the disclosures.”;

SEC. 1100A. AMENDMENTS TO THE TRUTH IN LENDING ACT.

The Truth in Lending Act (15 U.S.C. 1601 et seq.) is amended—

* * * * *

(5) in section 105(b) (15 U.S.C. 1604(b)), by striking the first sentence and inserting the following: “The Bureau shall publish a single, integrated disclosure for mortgage loan transactions (including real estate settlement cost statements) which includes the disclosure requirements of this title in conjunction with the disclosure requirements of the Real Estate Settlement Procedures Act of 1974 that, taken together, may apply to a transaction that is subject to both or either provisions of law. The purpose of such model disclosure shall be to facilitate compliance with the disclosure requirements of this title and the Real Estate Settlement Procedures Act of 1974, and to aid the borrower or lessee in understanding the transaction by utilizing readily understandable language to simplify the technical nature of the disclosures.”;

Attachment B-1

Loan Estimate – Alternative Prototype #1

[See attached]

HONEYLOCUST BANK

4321 Random Boulevard • Somecity, PA 54321

Save this Loan Estimate to compare with your final Settlement Disclosure.

Loan Estimate

DATE ISSUED 12/1/2011
APPLICANTS James White and Jane Johnson
 123 Anywhere Street, Apt 678
 Anytown, PA 12345
PROPERTY 456 Avenue A, Anytown, PA 12345
LOAN ID # 1330172608

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT Fixed Rate
LOAN TYPE ☒ Conventional ☐ FHA ☐ VA ☐ _____
RATE LOCK ☐ NO ☒ YES, until 1/30/2012 at 3:00 p.m. EST.

Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on 12/15/2011 at 3:00 p.m. EST.

Loan Terms		Can this amount increase after closing?
Loan Amount	\$104,975	NO
Interest Rate	4.375%	NO
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$524.13	NO
Does the loan have these features?		
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments		
Payment Calculation	Years 1-5	Years 6-30
Principal & Interest	\$524.13	\$524.13
Mortgage Insurance	+ 32	—
Estimated Escrow <i>Amount Can Increase Over Time</i>	+ 301	+ 301
Estimated Total Monthly Payment	\$857	\$825
Information about Escrow for Taxes, Insurance & Assessments <i>Amount Can Increase Over Time</i>	\$301 a month	<input checked="" type="checkbox"/> Escrow. Your escrow payment covers the taxes, insurance & assessments listed in Section F on page 2. You must pay for other property costs separately. <input type="checkbox"/> No Escrow. You must pay all of your taxes, insurance & assessments separately from your loan payments.

Closing Costs	
Estimated Cash to Close	\$25,101 Closing Costs include \$5,170 in estimated Settlement Fees. See details on page 2.

Visit www.consumerfinance.gov/futureurl for general information and tools.

Calculating Settlement Fees

A. Origination Charges	\$2,769
.875 Points (% of Loan Amount)	\$919
Underwriting Fee	\$675
Processing Fee	\$300
Verification Fee	\$200
Rate Lock Fee	\$525
Desk Review Fee	\$150

B. Services You Cannot Shop For	\$865
Flood Determination Fee	\$35
Tax Status Research Fee	\$50
Appraisal Fee	\$275
Credit Report Fee	\$30
Lender's Attorney	\$300
Closing Protection Letter	\$75
Appraisal Management Company Fee	\$100

C. Services You Can Shop For	\$1,536
Pest Inspection Fee	\$125
Survey Fee	\$150
PA Combined Title Services Fee	\$979
Settlement Agent Fee	\$250
Courier Fee	\$32

Total Settlement Fees	\$5,170
A + B + C	\$5,170
Lender Credits	– \$0

Limits on Increases: Generally, charges in A and Transfer Taxes in D cannot increase, and the total of the charges in B, C, and Recording Fees in D cannot increase by more than 10%. We will notify you if a change causes an increase above these limits.

Calculating Settlement Costs

D. Taxes and Other Government Fees	\$2,840
Transfer Taxes	\$2,470
Recording Fees	\$370
Other Taxes and Government Fees	\$0

E. Prepaids	\$464
Property Taxes (<u>0</u> months)	\$0
Homeowner's Insurance Premium (<u>12</u> months)	\$375
Mortgage Insurance Premium (<u>0</u> months)	\$0
Prepaid Interest (\$12.76 per day for 7 days @ 4.375%)	\$89

F. Initial Escrow Payment at Closing			\$902
Property Taxes	\$269.44	per month for 3 mo.	\$808
Homeowner's Insurance	\$31.25	per month for 3 mo.	\$94
Mortgage Insurance	\$0	per month for 0 mo.	\$0
Flood Insurance	\$0	per month for 0 mo.	\$0
HOA/Condo/Co-op	\$0	per month for 0 mo.	\$0

G. Other Costs	\$200
Real Estate Broker Administration Fee	\$200

Total Settlement Costs (D + E + F + G)	\$4,406
---	----------------

Calculating Cash to Close

Total Settlement Fees (A + B + C – Lender Credits)	\$5,170
Total Settlement Costs (D + E + F + G)	\$4,406
Down Payment/Funds from Borrower	\$18,525
Deposit	– \$3,000
Cash to Borrower	– \$0
Seller Credits	– \$0
Other Credits and Adjustments	– \$0
Closing Costs to be Financed	– \$0
Estimated Cash to Close	\$25,101

Additional Information About This Loan

LENDER	Honeylocust Bank	MORTGAGE BROKER
NMLS ID	111111	NMLS ID
LOAN OFFICER	John Smith	LOAN OFFICER
NMLS ID	487493	NMLS ID
EMAIL	jsmith@honeylocustbank.com	EMAIL
PHONE	111-222-3333	PHONE

Comparisons	Use these measures to compare this loan with other loans.	
In 5 Years	\$38,538	Total you will have paid in principal, interest, mortgage insurance, and fees.
	\$9,465	Principal you will have paid off.
Annual Percentage Rate (APR)	4.76%	This is not your interest rate. This rate expresses your costs over the loan term.
Total Interest Percentage (TIP)	79.75%	This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Other Considerations

Appraisals	We will promptly give you a copy of any written property appraisals or valuations that you pay for, even if the loan does not close.
Assumption	<p>If you sell or transfer this property to another person, we</p> <p><input type="checkbox"/> will allow, under certain conditions, this person to assume this loan on the original terms.</p> <p><input checked="" type="checkbox"/> will not allow this person to assume this loan on the original terms.</p>
Homeowner's Insurance	This loan requires homeowner's insurance on the property, which you may obtain from a company of your choice that we find acceptable.
Late Payment	If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.
Refinance	Refinancing this loan will depend on your future financial situation and market conditions. We cannot guarantee that you will be able to refinance this loan.
Servicing	<p><input type="checkbox"/> We intend to service your loan. You will make your payments to us.</p> <p><input checked="" type="checkbox"/> We intend to transfer servicing of your loan.</p>

Confirm Receipt

By signing, you are only confirming that you have received this form. You don't have to accept this loan, even if you have signed or received this form.

Applicant Signature

Date

Applicant Signature

Date

Attachment B-2

Loan Estimate – Alternative Prototype #2

[See attached]

AZALEA SAVINGS BANK

4321 Random Boulevard • Somecity, IL 54321

DATE ISSUED 08/01/2011

LOAN ID # 1330172608

Your interest rate, points, and lender credits can change unless you lock the rate. All other estimated closing costs expire on **08/15/2011** at 3:00 p.m. CST.

Loan Estimate

APPLICANTS James White
Jane Johnson
PROPERTY 456 Avenue A
Anytown, IL 12345

LOAN TERM 7 years
PRODUCT Fixed Rate Balloon
PURPOSE Purchase
LOAN TYPE ☒ Conventional ☐ FHA ☐ VA ☐

Loan Terms		Can this increase after closing?
Loan Amount	\$171,000	NO
Interest Rate	4.375%	NO
Monthly Loan Payment Principal and Interest Mortgage Insurance	\$940.72 \$853.79 + \$86.93	NO
Does this loan have these features?		
Prepayment Penalty	NO	
Balloon Payment	YES • You will have to pay \$149,349 at the end of year 7.	

Projected Payments	Expect to make these payments.	
AT CLOSING	YEARS 1 – 7	FINAL PAYMENT
\$17,781 Cash Needed to Close Includes estimated closing costs. See page 2 for details.	\$941 monthly loan payment	\$149,349 balloon payment
Estimated Taxes and Insurance \$309 a month <input checked="" type="checkbox"/> Escrow. Your total monthly payment will include taxes, insurance, and assessments. Expect to pay a total of \$1,250 a month to start. <input type="checkbox"/> No escrow. You must pay your taxes, insurance, and assessments separately from your loan payment.		

Comparisons	Use this information to compare this loan with others.	
Estimated Closing Costs	\$6,151	See page 2 for details.
Annual Percentage Rate (APR)	5.35%	This is not your interest rate. This rate expresses your costs over 30 years.
In 5 Years	\$62,594	Total you will have paid in any principal, interest, mortgage insurance, and fees.
	\$15,418	Principal you will have paid off.



For additional information and tools, visit www.consumerfinance.gov/futureurl

CREDITOR Azalea Savings Bank NMLS ID
 LOAN OFFICER Joe Smith NMLS ID 76543210
 PHONE 555-123-4444 EMAIL joesmith@azaleasavingsbank.com

LOAN ID # 1330172608
 PAGE 2

Estimated Closing Costs	A	Origination Charges	Origination Services	\$330
			<u>1</u> Points paid for interest rate	\$1,710
	B	Services You Cannot Shop For	<input checked="" type="checkbox"/> Appraisal <input type="checkbox"/> Lender's Attorney	
			<input checked="" type="checkbox"/> Credit report <input checked="" type="checkbox"/> Other	\$508
	C	Services You Can Shop For	Title Services and Lender's Title Insurance	\$1,456
			Borrower's Attorney	\$400
			Survey	\$95
			Inspections	\$112
	D	Taxes and Other Government Fees	Transfer Taxes	\$1,425
			Recording Fees	\$115
			Government Taxes and Other Fees	\$0
	E	Lender Credits		\$0
	Estimated Closing Costs (A + B + C + D - E)			\$6,151
Cash Needed to Close	F	Future Costs Paid at Closing	Insurance and property-related bills due at closing: <input type="checkbox"/> Property Taxes <input type="checkbox"/> Mortgage Insurance <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> HOA/Condo/Co-op <input type="checkbox"/>	\$525
			Payment into escrow for future insurance and property-related bills: <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Mortgage Insurance <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> HOA/Condo/Co-op <input type="checkbox"/>	\$793
			Prepaid Interest (15 days @ 4.375%, \$20.78 per day)	\$312
	G	Adjustments	Down Payment (minus \$9,000 deposit)	\$10,000
			Seller Credits	- \$0
			Closing Costs to be Financed	- \$0
	Cash Needed to Close (Estimated Closing Costs + F + G)			\$17,781

You have no obligation to choose this loan. Shop around to find the best loan for you.

Attachment C-1

Settlement Disclosure – Alternative Prototype #1

[See attached]

Settlement Disclosure

This form is a statement of final loan terms and closing costs.
Compare this document to your Loan Estimate.

SETTLEMENT INFORMATION

DATE 1/24/2012
AGENT ABC Settlement
FILE # 01234
PROPERTY 456 Avenue A
Anytown, PA 12345
SALE PRICE \$123,500

TRANSACTION INFORMATION

BORROWER James White and Jane Johnson
123 Anywhere Street, Apt 678
Anytown, PA 12345
SELLER John Wilson
123 Somewhere Drive
Anytown, PA 12345
LENDER Butternut Bank

LOAN INFORMATION

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT Fixed Rate
LOAN TYPE ☒ Conventional ☐ FHA
☐ VA ☐
MIC # 56789
LOAN ID # 1330172608

Loan Terms	Can this amount increase after closing?	
Loan Amount	\$109,805.63	NO
Interest Rate	4.375%	NO
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$548.25	NO
Does the loan have these features?		
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments		
Payment Calculation	Years 1-7	Years 8-30
Principal & Interest	\$548.25	\$548.25
Mortgage Insurance	+ 55.82	—
Estimated Escrow <i>Amount Can Increase Over Time</i>	+ 422.94	+ 422.94
Estimated Total Monthly Payment	\$1,027.01	\$971.19
Estimated Taxes, Insurance & Assessments <i>Amount Can Increase Over Time See Details on Page 4</i>	\$551.25 a month	<input type="checkbox"/> Escrow. Your escrow payment covers your taxes, insurance & assessments on the property. <input checked="" type="checkbox"/> Partial Escrow. Your escrow payment only covers the property costs in Section F on page 3. Some of your costs are not in escrow. <input type="checkbox"/> No Escrow. You must pay all of your taxes, insurance & assessments separately from your loan payments.

Closing Costs	
Cash to Close	\$27,625.00 Closing Costs include \$5,519.53 in Settlement Fees. See details on page 3.

What Changed?

CALCULATING CASH TO CLOSE	Estimate	Final
Settlement Fees	\$5,170.00	\$5,519.53
A. Origination Charges	\$2,769.00	\$2,810.90
B. Services You Cannot/Did Not Shop For	\$865.00	\$2,583.63
C. Services You Can/Did Shop For	\$1,536.00	\$125.00
Settlement Costs	\$4,406.37	\$8,093.51
D. Taxes & Other Government Fees	\$2,840.00	\$2,840.00
E. Prepays	\$464.30	\$1,935.38
F. Initial Escrow Payments at Closing	\$902.07	\$846.82
G. Other Costs	\$200.00	\$2,471.31
Down Payment/Funds from Borrower	\$18,525.00	\$18,525.00
Deposit	– \$3,000.00	– \$3,000.00
Cash to Borrower	\$0	\$0
Seller Credits	\$0	\$0
Other Credits and Adjustments	\$0	\$3,317.59
Closing Costs to be Financed	\$0	– \$4,830.63
Cash to Close	\$25,101.37	\$27,625.00

INTEREST RATE CHANGES	Estimate	Final
Interest rate	4.375%	4.375%
Can interest rate change after closing?	NO	NO
Did adjustable rate terms change?	N/A	

INCREASES OVER LIMITS	Estimate	Final	Over Limit?
Costs That Could Not Increase			
A. Origination Charges	\$2,769.00	\$2,810.90	YES \$41.90
D. Transfer Taxes	\$2,470.00	\$2,470.00	NO
Costs That Could Not Increase by More Than 10% in Total			
B. Services You Did Not Shop For	\$2,276.00	\$2,583.63	YES \$43.03
D. Recording Fees	\$370.00	\$370.00	
TOTAL	\$2,646.00	\$2,953.63	

Summaries of Transactions

BORROWER'S TRANSACTION

Due from Borrower at Closing	\$140,430.63
01 Closing Costs Paid at Closing by Borrower (H)	\$8,782.41
02 Closing Costs Financed in Loan Amount (H)	\$4,830.63
03 Sale price of property	\$123,500.00
04 Sale price of any personal property included in sale	
05	
06	
07 Other Credits & Adjustments	
08 Items Prepaid by Seller that are Due from Borrower	
09 City/town taxes 1/24/12 to 12/31/12	\$3,030.09
10 County taxes to	
11 Assessments to	
12 HOA dues 1/24/12 to 3/31/12 (quarterly)	\$287.50
13	
14	
Paid Already or on Behalf of Borrower at Closing	\$112,805.63
01 Deposit	\$3,000.00
02 Principal amount of borrower's new loan	\$109,805.63
03 Existing loan(s) assumed or taken subject to	
04	
05	
06 Other Credits & Adjustments	
07	
08	
09	
10 Adjustments for Items Unpaid by Seller	
11 City/town taxes to	
12 County taxes to	
13 Assessments to	
14	
15	
16	
Cash to Close <input checked="" type="checkbox"/> From <input type="checkbox"/> To Borrower	\$27,625.00
Total Due from Borrower at Closing	\$140,430.63
Total Paid Already or on Behalf of Borrower at Closing	– \$112,805.63

SELLER'S TRANSACTION

Due to Seller at Closing	\$126,817.59
01 Sale price of property	\$123,500.00
02 Sale price of any personal property included in sale	
03	
04	
05	
06	
07	
08 Items Prepaid by Seller that are Due from Borrower	
09 City/town taxes 1/24/12 to 12/31/12	\$3,030.09
10 County taxes to	
11 Assessments to	
12 HOA dues 1/24/12 to 3/31/12 (quarterly)	\$287.50
13	
14	
Due from Seller at Closing	\$87,807.87
01 Excess deposit	
02 Closing costs paid at closing by seller (H)	\$8,645.00
03 Existing loan(s) assumed or taken subject to	
04 Payoff of first mortgage loan	\$79,162.87
05 Payoff of second mortgage loan	
06	
07	
08	
09	
10 Adjustments for Items Unpaid by Seller	
11 City/town taxes to	
12 County taxes to	
13 Assessments to	
14	
15	
16	
Cash <input type="checkbox"/> From <input checked="" type="checkbox"/> To Seller	\$39,009.72
Total Due to Seller at Closing	\$126,817.59
Total Due from Seller at Closing	– \$87,807.87

Closing Cost Details	Borrower-Paid			Seller-Paid		Paid by Others
	Paid at Closing	Paid Before Closing	Financed in Loan Amt.	Paid at Closing	Paid Before Closing	
SETTLEMENT FEES						
A. Origination Charges	\$2,810.90					
01 .875 Point(s)	\$960.90					
02 Underwriting Fee			\$800.00			
03 Processing Fee			\$300.00			
04 Verification Fee			\$75.00			
05 Rate Lock Fee			\$525.00			
06 Desk Review Fee			\$150.00			
B. Services Borrower Did Not Shop For	\$2,583.63					
01 Credit Report Fee to Credit Co.			\$30.00			
02 Appraisal Fee to Local Appraisal Co.	\$335.00					
03 Document Preparation Fee to Collateral Research Inc.			\$55.00			
04 Tax Status Research Fee to Collateral Research Inc.			\$25.00			
05 Flood Determination Fee to Collateral Research Inc.			\$35.00			
06 Tax Monitoring Fee to Monitoring Services Inc.			\$15.00			
07 Flood Monitoring Fee to Monitoring Services Inc.			\$10.00			
08 Lender's Attorney to BF Law Group			\$325.00			
09 Title - Closing Protection Letter to Regional Title Co.	\$75.00					
10 Appraisal Mgmt. Co. Fee to AMC Co.			\$100.00			
11 Title - PA Inclusive Title Fee to Regional Title Co.			\$1,076.63			
12 Lender Coverage \$109,805.63 / Owner Coverage \$123,500						
13 Title - Settlement Agent Fee to Regional Title Co.			\$310.00			
14 Title - Courier Fee to Quick Delivery Co.			\$32.00			
15 Survey Fee to ABC Surveys Co.			\$160.00			
C. Services Borrower Did Shop For	\$125.00					
01 Pest Inspection Fee to Home Pest Co.			\$125.00			
02						
03						
Settlement Fees (A + B + C)	\$1,370.90	\$0	\$4,148.63			
Lender Credits						
TOTAL BORROWER-PAID SETTLEMENT FEES	\$5,519.53					
SETTLEMENT COSTS						
D. Taxes and Other Government Fees	\$2,840.00					
01 Commonwealth of PA Transfer Tax	\$617.50			\$617.50		
02 City of Philadelphia Transfer Tax	\$1,852.50			\$1,852.50		
03 Recording Fees Deed: \$200.00 Mortgage: \$170.00	\$370.00					
04						
E. Prepays	\$1,935.38					
01 Mortgage Insurance Premium (__mo.)						
02 Homeowner's Insurance Premium (12 mo.) to XYZ Ins. Co.			\$682.00			
03 Flood Insurance Premium (12 mo.) to Flood Safe Co.	\$1,160.00					
04 Property Taxes (__mo.)						
05 Prepaid Interest \$13.34 per day from 1/24/12 to 1/31/12	\$93.38					
06						
F. Initial Escrow Payment at Closing	\$846.82					
01 Mortgage Insurance per month for mo.						
02 Homeowner's Insurance \$56.83 per month for 3 mo.	\$170.49					
03 Property Taxes \$269.44 per month for 3 mo.	\$808.32					
04 Flood Insurance \$96.67 per month for 3 mo.	\$290.01					
05 HOA/Condo/Co-op per month for mo.						
06 Aggregate Adjustment	- \$422.00					
G. Other Costs	\$2,471.31					
01 \$3,087.50 to Reliable Realty Co/ \$3,087.50 to Realty Pros LLC				\$6,175.00		
02 Real Estate Broker Administration Fee to Reliable Realty Co.	\$200.00					
03 Structural Inspection Fee to Home Engineering Corp.	\$325.00					
04 Inspection Fee to Inspector Home Co.	\$245.00					
05 HOA Processing Fee to 456 HOA	\$500.00					
06 Home Warranty to Warrant Row Co.	\$211.31					
07 Mobile Signing Agent to Quick Signing Co.	\$150.00					
08 Borrower Attorney to Law Phil LLP	\$840.00					
Settlement Costs (D + E + F + G)	\$7,411.51	\$0	\$682.00			
TOTAL BORROWER-PAID SETTLEMENT COSTS	\$8,693.51					
H. TOTAL CLOSING COSTS (Settlement Fees + Settlement Costs)						
	\$8,782.41	\$0	\$4,830.63	\$8,645.00		
TOTAL BORROWER-PAID CLOSING COSTS						
	\$13,613.04					

Loan Disclosures

Assumption

If you sell or transfer this property to another person

- ☐ We will allow, under certain conditions, this person to assume this loan on the original terms.
- ☒ We will not allow assumption of this loan.

Demand Feature

- ☐ Your loan has a demand feature, which permits the lender to demand early repayment of the loan. If this loan has a demand feature, you should review your note for details.
- ☒ Your loan does not have a demand feature.

Late Payment

If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.

Negative Amortization (Increase in Loan Amount)

Under your loan terms, you

- ☐ are scheduled to make monthly payments that do not pay all of the interest due that month. As a result, your loan amount will increase (negatively amortize), and your loan amount will likely become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.
- ☐ have the option of making monthly payments that do not pay all of the interest due that month. If you do, your loan amount will increase (negatively amortize), and, as a result, your loan amount may become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.
- ☒ do not have a negative amortization feature.

Partial Payment Policy

- ☐ We will accept payments that are less than the full amount due (partial payments). We will apply partial payments:

- ☒ We will not accept partial payments.

Security Interest

You are granting us a security interest in 456 Avenue A, Anytown, PA 12345. You may lose this property if you do not make your payments or satisfy other obligations for this loan.

Escrow Account Information

For now, your loan

- ☒ will have an escrow account (also called an "impound" or "trust" account) to pay the property costs listed in Section F on page 3 for you. If we fail to make a payment, we may be liable for penalties and interest. Without an escrow account, you would pay these costs directly, possibly in one or two large payments a year.

Year 1 Property Costs

Estimated Property Costs Escrowed	\$5,075.28	The total costs over year 1 of items listed in Section F on page 3.
Initial Escrow Payment	\$846.82	The payment in Section F on page 3 is a cushion for the escrow account.
Monthly Escrow Payment	\$422.94	The amount included in your total monthly payment.
Estimated Property Costs Not Escrowed	\$1,539.72	Property costs that are not escrowed: HOA dues
		You may have other property costs not listed here.

- ☐ will not have an escrow because ____ you declined an account ____ we do not offer escrow accounts. You must directly pay your property costs, such as property taxes and homeowner's insurance.

Estimated Costs

Year 1, Estimated Property Costs		Without an escrow account, you would pay these costs directly, possibly in one or two large payments a year.
Fee for No Escrow Account		

Contact us to ask whether your loan can have an escrow account.

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 unless you create a new escrow account. 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, we may

- add the amounts to your loan balance,
- add an escrow account to your loan, or
- require you to pay for property insurance that we buy on your behalf, which likely would be more expensive and provide fewer benefits than what you could buy on your own.

Loan Calculations

Total of Payments. The amount you have paid after you have made all 360 payments as scheduled.	\$354,038.18
Finance Charge. The dollar amount the loan will cost you	\$94,978.46
Amount Financed. The amount of credit provided to you or on your behalf.	\$106,801.32
Annual Percentage Rate (APR). This is not your interest rate. This rate expresses your costs over the loan term.	4.92%
Total Interest Percentage (TIP). This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.	79.75%
Average Cost of Funds (ACF). This represents the average cost of borrowing funds to make mortgage loans for financial institutions that report to the Federal Home Loan Bank of San Francisco.	1.20%



Questions? If you have questions about the loan terms and costs on this form, contact your lender. To get more information or make a complaint, contact the Consumer Financial Protection Bureau at www.consumerfinance.gov.

Other Disclosures

Appraisal Copy

If you paid for a written appraisal or valuation of the property, we are required to give you a copy at no additional cost at least 3 days before closing. If you have not yet received it, please contact John Smith at Butternut Bank at 111-222-3333.

Contract Details

See your note and security instrument for information about

- what happens if you fail to make your payments,
- other ways you can default on the loan,
- situations in which we can require early repayment of the loan, and
- the rules for making payments before they are due.

Liability after Foreclosure

If your lender forecloses on this property and the foreclosure does not cover the amount of unpaid balance on this loan.

- ☒ state law may protect you from liability for the unpaid balance. If you refinance or take on any additional debt on this property, you may lose this protection and be liable for debt remaining after the foreclosure. You may want to consult a lawyer for more information.
- ☐ state law does not protect you from liability for the unpaid balance.

Refinance

Refinancing this loan will depend on your future financial situation and market conditions. We cannot guarantee that you will be able to refinance this loan.

Tax Deductions

If you borrow more than this property is worth, the interest on the loan amount above this property's fair market value is not deductible from your federal income taxes. You should consult a tax advisor for more information.

Contact Information

	Lender	Mortgage Broker	Real Estate Broker	Real Estate Broker	Settlement Agent
Name	Butternut Bank		Reliable Realty Co.	Realty Pros	ABC Settlement
Address	4321 Liberty Blvd. Somecity, PA 54321		1776 Franklin St. Ste 405 Anytown, PA 12345	3456 Benjamin Blvd. Anytown, PA 12345	5432 Liberty Blvd. Ste 405 Somecity, PA 54321
NMLS ID	111111				
Contact	John Smith		Jon Anderson	Steve Walsh	Nancy Jones
Loan Officer NMLS ID	487493				
Email	jsmith@butternutbank.com		janderson@RRealty.com	swalsh@realtypros.com	njones@ABCsettlement.com
Phone	111-222-3333		444-555-6666	555-666-7777	666-777-8888

Confirm Receipt

By signing, you are only confirming that you have received this form. You do not have to complete this transaction, even if you have signed or received this form.

Applicant: Signature

Date

Applicant Signature

Date

Attachment C-2

Settlement Disclosure – Alternative Prototype #2

[See attached]

Settlement Disclosure

This form is a statement of final loan terms and closing costs.
Compare this document to your Loan Estimate.

SETTLEMENT INFORMATION

DATE 1/24/2012
AGENT ABC Settlement
FILE # 01234
PROPERTY 456 Avenue A
Anytown, PA 12345
SALE PRICE \$123,500

TRANSACTION INFORMATION

BORROWER James White and Jane Johnson
123 Anywhere Street, Apt 678
Anytown, PA 12345
SELLER John Wilson
123 Somewhere Drive
Anytown, PA 12345
LENDER Hemlock Bank

LOAN INFORMATION

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT Fixed Rate
LOAN TYPE ☒ Conventional ☐ FHA
☐ VA ☐
MIC # 56789
LOAN ID # 1330172508

Loan Terms	Can this amount increase after closing?	
Loan Amount	\$109,805.63	NO
Interest Rate	4.375%	NO
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$548.25	NO
Does the loan have these features?		
Prepayment Penalty	NO	
Balloon Payment	NO	

Projected Payments		
Payment Calculation	Years 1-7	Years 8-30
Principal & Interest	\$548.25	\$548.25
Mortgage Insurance	+ 55.82	—
Estimated Escrow <i>Amount Can Increase Over Time</i>	+ 422.94	+ 422.94
Estimated Total Monthly Payment	\$1,027.01	\$971.19
Information about Escrow for Taxes, Insurance & Assessments <i>Amount Can Increase Over Time See Details on Page 4</i>	\$422.94 a month	<input checked="" type="checkbox"/> Escrow. Your escrow payment covers the taxes, insurance & assessments listed in Section F on page 2. You must pay for other property costs separately. <input type="checkbox"/> No Escrow. You must pay all of your taxes, insurance & assessments separately from your loan payments.

Closing Costs	
Cash to Close	\$27,625.00 Closing Costs include \$5,519.53 in Settlement Fees. See details on page 2.

Closing Cost Details	Borrower-Paid			Seller-Paid		Paid by Others
	Paid at Closing	Paid Before Closing	Financed in Loan Amt.	Paid at Closing	Paid Before Closing	
SETTLEMENT FEES						
A. Origination Charges		\$2,810.90				
.875 Point(s)	\$960.90					
Underwriting Fee			\$800.00			
Processing Fee			\$300.00			
Verification Fee			\$75.00			
Rate Lock Fee			\$525.00			
Desk Review Fee			\$150.00			
B. Services Borrower Did Not Shop For		\$2,583.63				
Credit Report Fee	to Credit Co.		\$30.00			
Appraisal Fee	to Local Appraisal Co.	\$335.00				
Document Preparation Fee	to Collateral Research Inc.		\$55.00			
Tax Status Research Fee	to Collateral Research Inc.		\$25.00			
Flood Determination Fee	to Collateral Research Inc.		\$35.00			
Tax Monitoring Fee	to Monitoring Services Inc.		\$15.00			
Flood Monitoring Fee	to Monitoring Services Inc.		\$10.00			
Lender's Attorney	to BF Law Group		\$325.00			
Title - Closing Protection Letter	to Regional Title Co.	\$75.00				
Appraisal Mgmt. Co. Fee	to AMC Co.		\$100.00			
Title - PA Inclusive Title Fee	to Regional Title Co.		\$1,076.63			
Lender Coverage \$109,805.63 / Owner Coverage \$123,500						
Title - Settlement Agent Fee	to Regional Title Co.		\$310.00			
Title - Courier Fee	to Quick Delivery Co.		\$32.00			
Survey Fee	to ABC Surveys Co.		\$160.00			
C. Services Borrower Did Shop For		\$125.00				
Pest Inspection Fee	to Home Pest Co.		\$125.00			
Settlement Fees (A + B + C)		\$1,370.90	\$0	\$4,148.63		
Lender Credits						
TOTAL BORROWER-PAID SETTLEMENT FEES		\$5,519.53				
SETTLEMENT COSTS						
D. Taxes and Other Government Fees		\$2,840.00				
Commonwealth of PA Transfer Tax		\$617.50			\$617.50	
City of Philadelphia Transfer Tax		\$1,852.50			\$1,852.50	
Recording Fees		\$370.00				
Deed: \$200.00 Mortgage: \$170.00						
E. Prepays		\$1,935.38				
Mortgage Insurance Premium (__mo.)						
Homeowner's Insurance Premium (12 mo.) to XYZ Ins. Co.			\$682.00			
Flood Insurance Premium (12 mo.) to Flood Safe Co.		\$1,160.00				
Property Taxes (__mo.)						
Prepaid Interest \$13.34 per day from 1/24/12 to 1/31/12		\$93.38				
F. Initial Escrow Payment at Closing		\$846.82				
Mortgage Insurance		per month for mo.				
Homeowner's Insurance \$56.83		per month for 3mo.	\$170.49			
Property Taxes \$269.44		per month for 3mo.	\$808.32			
Flood Insurance \$96.67		per month for 3mo.	\$290.01			
HOA/Condo/Co-op		per month for mo.				
Aggregate Adjustment		- \$422.00				
G. Other Costs		\$2,471.31				
\$3,087.50 to Reliable Realty Co./ \$3,087.50 to Realty Pros LLC					\$6,175.00	
Real Estate Broker Administration Fee to Reliable Realty Co.		\$200.00				
Structural Inspection Fee		to Home Engineering Corp.	\$325.00			
Inspection Fee		to Inspector Home Co.	\$245.00			
HOA Processing Fee		to 456 HOA	\$500.00			
Home Warranty		to Warrant Row Co.	\$211.31			
Mobile Signing Agent		to Quick Signing Co.	\$150.00			
Borrower Attorney		to Law Phil LLP	\$840.00			
Settlement Costs (D + E + F + G)		\$7,411.51	\$0	\$682.00		
TOTAL BORROWER-PAID SETTLEMENT COSTS		\$8,093.51				
H. TOTAL CLOSING COSTS (Settlement Fees + Settlement Costs)						
		\$8,782.41	\$0	\$4,830.63	\$8,645.00	
TOTAL BORROWER-PAID CLOSING COSTS		\$13,613.04				

What Changed?

CALCULATING CASH TO CLOSE	Estimate	Final
Settlement Fees	\$5,170.00	\$5,519.53
Settlement Costs	\$4,406.37	\$8,093.51
Down Payment/Funds from Borrower	\$18,525.00	\$18,525.00
Deposit	– \$3,000.00	– \$3,000.00
Cash to Borrower	\$0	\$0
Seller Credits	\$0	\$0
Other Credits and Adjustments	\$0	\$3,317.59
Closing Costs to be Financed	\$0	– \$4,830.63
Cash to Close	\$25,101.37	\$27,625.00

INCREASES OVER LIMITS	Estimate	Final	Over Limit?
Costs That Could Not Increase			
A. Origination Charges	\$2,769.00	\$2,810.90	YES \$41.90
D. Transfer Taxes	\$2,470.00	\$2,470.00	NO
Costs That Could Not Increase by More Than 10% in Total			
B. Services You Did Not Shop For	\$2,276.00	\$2,583.63	YES \$43.03
D. Recording Fees	\$370.00	\$370.00	
TOTAL	\$2,646.00	\$2,953.63	

INTEREST RATE CHANGES	Estimate	Final
Interest rate	4.375%	4.375%
Can interest rate change after closing?	NO	NO
Did adjustable rate terms change?	N/A	

Summaries of Transactions

BORROWER'S TRANSACTION

I. Due from Borrower at Closing	\$140,430.63
Closing Costs Paid at Closing by Borrower (H)	\$8,782.41
Closing Costs Financed in Loan Amount (H)	\$4,830.63
Sale price of property	\$123,500.00
Sale price of any personal property included in sale	

Other Credits & Adjustments

Items Prepaid by Seller that are Due from Borrower			
City/town taxes	1/24/12 to 12/31/12		\$3,030.09
County taxes	to		
Assessments	to		
HOA dues	1/24/12 to 3/31/12 (quarterly)		\$287.50

J. Paid Already or on Behalf of Borrower at Closing	\$112,805.63
Deposit	\$3,000.00
Principal amount of borrower's new loan	\$109,805.63
Existing loan(s) assumed or taken subject to	

Other Credits & Adjustments

Adjustments for Items Unpaid by Seller

City/town taxes	to
County taxes	to
Assessments	to

CALCULATION

Total Due from Borrower at Closing (I)	\$140,430.63
Total Paid Already or on Behalf of Borrower at Closing (J)	– \$112,805.63
Cash to Close <input checked="" type="checkbox"/> From <input type="checkbox"/> To Borrower	\$27,625.00

SELLER'S TRANSACTION

K. Due to Seller at Closing	\$126,817.59
Sale price of property	\$123,500.00
Sale price of any personal property included in sale	

Items Prepaid by Seller that are Due from Borrower

City/town taxes	1/24/12 to 12/31/12		\$3,030.09
County taxes	to		
Assessments	to		
HOA dues	1/24/12 to 3/31/12 (quarterly)		\$287.50

L. Due from Seller at Closing	\$87,807.87
Excess deposit	
Closing costs paid at closing by seller (H)	\$8,645.00
Existing loan(s) assumed or taken subject to	
Payoff of first mortgage loan	\$79,162.87
Payoff of second mortgage loan	

Adjustments for Items Unpaid by Seller

City/town taxes	to
County taxes	to
Assessments	to

CALCULATION

Total Due to Seller at Closing (K)	\$126,817.59
Total Due from Seller at Closing (L)	– \$87,807.87
Cash <input type="checkbox"/> From <input checked="" type="checkbox"/> To Seller	\$39,009.72

Loan Disclosures

Assumption

If you sell or transfer this property to another person

- ☐ We will allow, under certain conditions, this person to assume this loan on the original terms.
- ☒ We will not allow assumption of this loan.

Demand Feature

- ☐ Your loan has a demand feature, which permits the lender to demand early repayment of the loan. If this loan has a demand feature, you should review your note for details.
- ☒ Your loan does not have a demand feature.

Late Payment

If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.

Negative Amortization (Increase in Loan Amount)

Under your loan terms, you

- ☐ are scheduled to make monthly payments that do not pay all of the interest due that month. As a result, your loan amount will increase (negatively amortize), and your loan amount will likely become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.
- ☐ have the option of making monthly payments that do not pay all of the interest due that month. If you do, your loan amount will increase (negatively amortize), and, as a result, your loan amount may become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.
- ☒ do not have a negative amortization feature.

Partial Payment Policy

- ☐ We will accept payments that are less than the full amount due (partial payments). We will apply partial payments:

- ☒ We will not accept partial payments.

Security Interest

You are granting us a security interest in 456 Avenue A, Anytown, PA 12345. You may lose this property if you do not make your payments or satisfy other obligations for this loan.

Escrow Account Information

For now, your loan

- ☒ will have an escrow account (also called an "impound" or "trust" account) to pay the property costs in Section F on page 2, such as property taxes and homeowner's insurance. We estimate that these costs will total **\$5,075.28** for the first year of your loan. Without an escrow account, you would directly pay these potentially large costs in semi-annual or annual payments. You may have other property costs that are not being paid into the escrow account, which you must directly pay yourself. At closing, you will make an initial deposit of **\$846.82** into your escrow account. After that, your regular mortgage payments will include an additional **\$422.94** that will go into your escrow account. We will take money from your account to pay these property costs as needed. If we fail to make payments, we may be liable for penalties and interest.

- ☐ will not have an escrow account. You do not have an escrow account because ____ you declined an account ____ we do not offer escrow accounts. The fee for not having an escrow account is \$ _____. In addition to your mortgage loan payment, you must directly pay your property costs, such as property taxes and homeowner's insurance. We estimate that these costs will total \$ _____ for the first year of your loan. You must pay these costs in potentially large semiannual or annual payments. If you would like an escrow account, you may contact us at _____.

In the future,

If you have an escrow account, or if one is added later, the amount of your escrow payment may change. In addition, you may be permitted to cancel your escrow account, but if you do so, you will be responsible for directly paying these property costs unless you create a new escrow account.

If your property taxes are not paid, your state or local government may (1) impose fines and penalties or (2) place a tax lien on this property. In addition, if you fail to pay any of your property costs, we may

- add the amounts to your loan balance,
- add an escrow account to your loan, or
- require you to pay for insurance on the property that we buy on your behalf, which likely would be more expensive and provide fewer benefits than what you could obtain on your own.

Loan Calculations

Total of Payments. The amount you have paid after you have made all 360 payments as scheduled.	\$354,038.18
Finance Charge. The dollar amount the loan will cost you.	\$94,978.46
Amount Financed. The amount of credit provided to you or on your behalf.	\$106,801.32
Annual Percentage Rate (APR). This is not your interest rate. This rate expresses your costs over the loan term.	4.92%
Total Interest Percentage (TIP). This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.	79.75%
Lender Cost of Funds (LCF). The cost of the funds used to make this loan. This is not a direct cost to you.	1.20%

Questions? If you have questions about the loan terms and costs on this form, contact your lender. To get more information or make a complaint, contact the Consumer Financial Protection Bureau at www.consumerfinance.gov.

Other Disclosures**Appraisal Copy**

If you paid for a written appraisal or valuation of the property, we are required to give you a copy at no additional cost at least 3 days before closing. If you have not yet received it, please contact John Smith at Hemlock Bank at 111-222-3333.

Contract Details

See your note and security instrument for information about

- what happens if you fail to make your payments,
- other ways you can default on the loan,
- situations in which we can require early repayment of the loan, and
- the rules for making payments before they are due.

Liability after Foreclosure

If your lender forecloses on this property and the foreclosure does not cover the amount of unpaid balance on this loan,

- ☒ state law may protect you from liability for the unpaid balance. If you refinance or take on any additional debt on this property, you may lose this protection and be liable for debt remaining after the foreclosure. You may want to consult a lawyer for more information.
- ☐ state law does not protect you from liability for the unpaid balance.

Refinance

Refinancing this loan will depend on your future financial situation and market conditions. We cannot guarantee that you will be able to refinance this loan.

Tax Deductions

If you borrow more than this property is worth, the interest on the loan amount above this property's fair market value is not deductible from your federal income taxes. You should consult a tax advisor for more information.

Contact Information

	Lender	Mortgage Broker	Real Estate Broker	Real Estate Broker	Settlement Agent
Name	Hemlock Bank		Reliable Realty Co.	Realty Pros	A&C Settlement
Address	4321 Liberty Blvd. Somecity, PA 54321		1776 Franklin St. Ste 405 Anytown, PA 12345	3456 Benjamin Blvd. Anytown, PA 12345	5432 Liberty Blvd. Ste 405 Somecity, PA 54321
NMLS ID	111111				
Contact	John Smith		Jon Anderson	Steve Walsh	Nancy Jones
Loan Officer NMLS ID	487493				
Email	jsmith@hemlockbank.com		janderson@RRealty.com	swalsh@realtypros.com	njones@A&Csettlement.com
Phone	111-222-3333		444-555-6666	555-666-7777	666-777-8888

Confirm Receipt

By signing, you are only confirming that you have received this form. You do not have to complete this transaction, even if you have signed or received this form.

Applicant Signature

Date

Applicant Signature

Date