

2012
Compliance Supervisory Perspectives
SEMINAR

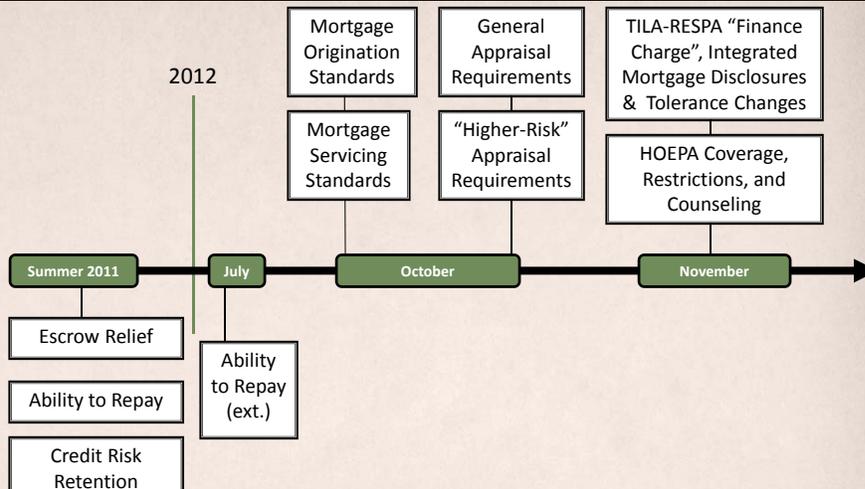


Regulatory Update
A Recap of 2012 and Looking Ahead

Agenda

- Recent Regulatory Changes
- Anticipated Final Rules
- Pending Proposals
- Future Proposals

Regulatory Timeline



Recent Regulatory Changes

- Loan Originator Compensation Restrictions
- Increased Regulations Z and M Thresholds
- Remittance Rules

Anticipated Final Rule: Escrow

- Summary: Longer escrow accounts and new disclosure
- Key Points:
 - Extend mandatory escrow period to 5 years
 - Provide narrow carve-out for small, rural banks
 - Require new taxes and insurance disclosure regardless of escrow account
- Impact: Increase costs of offering HPML

Anticipated Final Rule: Ability to Repay

- Summary: Must evaluate ability to repay mortgage
- Key Points:
 - Consider and document repayment ability
 - Consequences of failure
 - Qualified Mortgages protection
- Impact: May increase documentation costs, even for QM

Anticipated Final Rule: Credit Risk Retention

- Summary: Skin in the Game
- Key Points:
 - Banks must retain 5% credit risk on sold loans
 - Exemption for Qualified Residential Mortgages
- Impact: Minimal for banks that retain mortgages or sell to GSEs

Pending Proposal: Know Before You Owe

- Overall Summary: Major overhaul of mortgage rules
- Key Points:
 - Integrate RESPA & TILA disclosures and require earlier
 - Limit how settlement fees can increase
 - Eliminate “some in, some out” approach towards finance charges
- Impact: Transition costs to adapt systems and train staff

Pending Proposal: Know Before You Owe

- Summary: Integrated RESPA and TILA mortgage disclosures
- Key Points:
 - Combine GFE and early TIL into Loan Estimate. Loan Estimate required within 3 business days of “application.”
 - Combine Settlement Statement and Final TIL into Closing Disclosure. Closing Disclosure required 3 business days before closing.
- Impact: Transition costs to adapt systems, train staff, and educate customers

Pending Proposal: Know Before You Owe

- Summary: Limit how settlement costs can increase
- Key Points:
 - Restrict circumstances where consumers can be required to pay more for settlement services than initially disclosed
- Impact: Increased risks from inaccurate estimates

Pending Proposal: Know Before You Owe

- Summary: Simplify which fees are finance charges
- Key Points:
 - Eliminate “some in, some out” approach
 - Regulatory repercussions
 - “Transaction Coverage Rate”
- Impact: Transition costs to adapt systems and train staff

Pending Proposal: HOEPA Changes

- Summary: Expands HOEPA coverage and protections
- Key Points:
 - Apply HOEPA to purchase loans and HELOCs
 - Revise existing triggers and add prepayment penalty trigger
 - Restrict terms and fees
 - Require homeownership counseling
- Impact: Increase cost of HOEPA loans

Pending Proposals: Origination Standards

- Summary: Expand loan originator compensation and qualifications, new restrictions on upfront points and fees
- Key Points:
 - Upfront points & fees must lower rate, trigger 0/0 option
 - LO compensation relief
 - Additional LO qualifications
 - Prohibit mandatory arbitration clauses and financing credit insurance premiums
- Impact: Review product offerings and loan officer compensation policies

Pending Proposals: Servicing Standards

- Summary: Prevent surprises and improve customer service
- Key Points:
 - New disclosures
 - Increased services for delinquent borrowers
 - Prompt crediting of payments
 - Promptly correct errors
- Impact: Increase transaction costs of servicing mortgages

Pending Proposals: Appraisal Standards

- Summary: Must provide copy of appraisal
- Key Points:
 - Notice of right to receive copy of appraisal within 3 days of application
 - Appraisals provided as soon as possible
 - “Higher risk” loans require:
 - licensed/certified appraiser
 - second appraisal for flipped properties
- Impact: May increase cost of mortgage lending, particularly for “higher-risk” loans

Future Provisions: Additional HMDA Data

- Summary: HMDA reporters will be required to collect additional data
- Key Points (New Fields):
 - Borrower's age and credit score
 - Loan terms such as: point & fees at origination, amount of prepayment penalty, introductory rate, term, whether negative amortization is allowed
 - Other factors such as collateral value and how application was received
- Impact: Increased costs to collect data accurately

Future Provisions: Business Data Collection

- Summary: Collect information on credit requests by women-owned, minority-owned, or small businesses
- Key Points:
 - Dodd-Frank would apply collection requirement to all banks
 - Data:
 - Borrower characteristics such as monitoring information, tract location of principal place of business, and business's gross annual revenue
 - Loan characteristics such as the application date, type, purpose, amount applied for, and amount received.
- Impact: Increased costs to develop or adapt data collection systems

Questions?

FEDERAL RESERVE BANK OF KANSAS CITY

19

2012
Compliance Supervisory Perspectives
SEMINAR