REAL ESTATE SETTLEMENT PROCEDURES ACT
AND
THE TRUTH-IN-LENDING ACT
OCTOBER 2011

REGULATORY COMPLIANCE TRAINING
MORTGAGE LENDING

RESPA OVERVIEW

- RESPA Background and Purpose
- Special Information Booklet
- GFE and HUD Disclosure Review by Section
  - How To's of Completion
  - Common Regulatory Findings
  - GFE and HUD Compliance
  - Changed Circumstance
- Servicing Transfer
- Initial Escrow Disclosure Requirement
- Prohibition on Kickbacks and Unearned Fees
- General Servicing Requirements

RESPA BACKGROUND AND PURPOSE

The Real Estate Settlement Procedures Act (RESPA) is a consumer protection law that applies to loans secured by a one-to-four family residential property.

The purpose of RESPA is to:

- ✓Help consumers become better shoppers for settlement services
- ✓Eliminate kickbacks, referral fees and unearned fees that unnecessarily increase the costs of certain settlement services

WHEN MUST YOU ISSUE A GFE?

The Initial GFE must be issued within 3 business days of receipt of information sufficient to complete an application:

1. Borrower's Name
2. Borrower's Monthly Income
3. Borrower's Social Security Number
4. Property Address
5. Estimate of Value of Property
6. Loan Amount

- Any other information deemed necessary by the Lender.

NOTE- Aura's Process: MLO's provide the initial GFE at time of face-to-face application. Processor prepares and sends any revised GFE's due to a **Changed Circumstance**.

BE SURE TO DOCUMENT THE DATES OF INITIAL AND REVISED GFE'S

Ensure you document when the GFE was issued to the borrower.

Examples:

- *GFE Acknowledgment* form
- Encompass System Date Stamp
- Date stamp
- Borrowers signed documentation of receipt
- If mailing the disclosure(s), send a dated *Cover Letter* explaining the reissuance of the GFE based on the Changed Circumstance (i.e. Loan Amount Change).

GFE CONTENT REVIEW – PAGE 1

All sections of the GFE must be filled out accurately and completely. Encompass will auto-populate the top of the GFE Form. Be sure to double check the information for accuracy and completeness.

QUICK CHALLENGE: What element of information is wrong in the image below? What Information is missing?

Regulatory Tip: Common error cited by regulators = Date of GFE not updated at time of reissuance of GFE due to Changed Circumstance.

OMB Approval No. 2502-0265

Good Faith Estimate (GFE)

Name of Originator AURA Mortgage Advisors, LLC / MC5382	Borrower Marie Testcase Anthony Testcase
Originator Address 57 WARREN STREET Boston, MA 02119	Property Address 600 Washington Street Dorchester, MA 02223
Originator Phone Number	
Originator Email	Date of GFE 09/04/2011

GFE CONTENT REVIEW – PAGE 1

- This section of Page 1 provides important deadlines after which the loan terms that are the subject of the GFE may not be available to the applicant.
- In **Line 1**, state the date until which the interest rate for the GFE will be available.
- In **Line 2**, state the date until which the estimate of all other settlement charges for the GFE will be available. This date must be at least 10 business days from the date of the GFE.
- In **Line 3**, state how many calendar days within which the applicant must go to settlement once the interest rate is locked. Item 3 should contain N/A when unlocked and a lock in period when locked.
- In **Line 4**, state how many calendar days prior to settlement the interest rate would have to be locked, if applicable. Item 4 should contain number of days required by your lender when unlocked and N/A when locked.

COMMON REGULATORY FINDING: Item 2 does not reflect at least 10 business days from date of GFE.

BEST PRACTICE: Document applicant's intent to proceed with application within 10 business days after providing GFE (i.e. notation in conversation log).

Important dates

1. The interest rate for this GFE is available through ______. After this time, the interest rate, some of your loan Origination Charges, and the monthly payment shown below can change until you lock your interest rate.
2. This estimate for all other settlement charges is available through ______.
3. After you lock your interest rate, you must go to settlement within ___ days (your rate lock period) to receive the locked interest rate.
4. You must lock the interest rate at least ___ days before settlement.

GFE CONTENT REVIEW – PAGE 1

- You are required to complete all information in this section. Encompass will auto-populate these fields based on the information you previously input into the system.
- Since Aura only offers fixed rate loans, Questions 5 and 7 should be **no**. Question 6 should also be No since Aura does not have any negative amortization or payment option loans.
- Review the information to make sure it's accurate and complete.

Summary of your loan	Your initial loan amount is	$ 285,000.00	
	Your loan term is	30 years	
	Your initial interest rate is	6.250 %	
	Your initial monthly amount owed for principal, interest, and any mortgage insurance is	$ 1,754.79 per month	
	Can your interest rate rise?	[X] No	[ ] Yes, it can rise to a maximum of %. The first change will be in .
	Even if you make payments on time, can your loan balance rise?	[X] No	[ ] Yes, it can rise to a maximum of $.
	Even if you make payments on time, can your monthly amount owed for principal, interest, and any mortgage insurance rise?	[X] No	[ ] Yes, the first increase can be in and the monthly amount owed can rise to $. The maximum it can ever rise to is $.
	Does your loan have a prepayment penalty?	[X] No	[ ] Yes, your maximum prepayment penalty is $.
	Does your loan have a balloon payment?	[X] No	[ ] Yes, you have a balloon payment of $ due in years.

GFE CONTENT REVIEW – PAGE 2

Your Adjusted Origination Charges	
1. Our origination charge This charge is for getting this loan for you.	

GFE Page 2 -Block 1Block 1, —Our origination chargell on the GFE contains all charges for origination services **performed by or on behalf of a lender.** Origination services includes, but is not limited to, the following: taking of the loan application, loan processing, underwriting of the loan, funding of the loan, acting as an intermediary between a borrower and lender, obtaining verifications and appraisals, and any processing and administrative services required to perform these functions.

IMPORTANT: Block is subject to ZERO TOLERANCE with respect to Fee Changes.

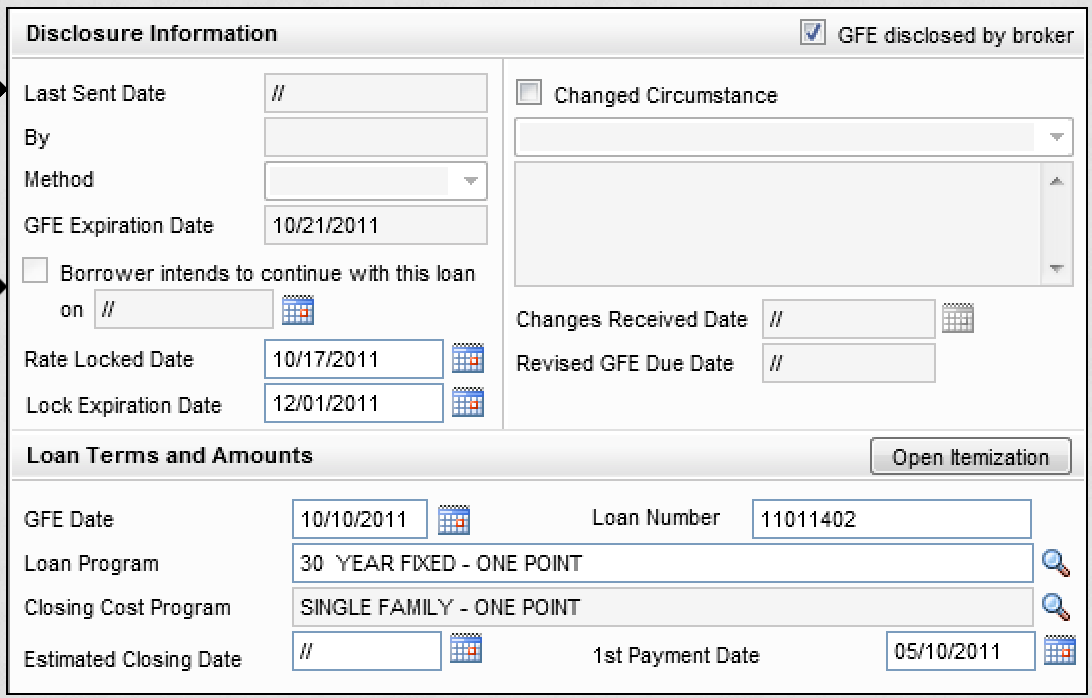
Fees may include, but are not limited to:

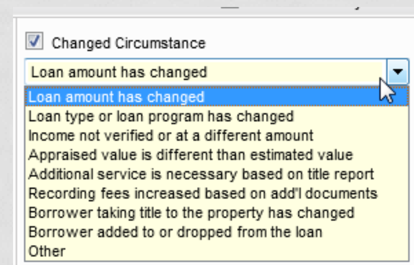
- Administration fees
- Application fee
- Commitment fee
- Courier fee
- Lender fees
- Originator document preparation fee
- Origination fee
- Processing fee
- Underwriting fee
- Tax Transcript Fees
- Wire fee
- If the Attorney charges a Fee to Prepare Documents for the Lender, that fee should be disclosed on Block 1 of Page 2.

Change in Circumstance If the loan amount changes and all or a portion of Block 1 is calculated as a % of the loan amount, then **that portion** of Block 1 may be recalculated.

ENCOMPASS AND GFE TRACKING AND DOCUMENTATION

Use the Encompass GFE Tracking Features to document and track GFE changes and borrower's acceptance of the GFE.





ased on a changed circumstance, check the Changed Circumstance box and a drop-down list of applicable reasons will be provided.

GFE PAGE 2 -BLOCK 2

2. Your credit or charge (points) for the specific interest rate chosen	
☐ The credit or charge for the interest rate of [ ] % is included in "Our origination charge." (See item 1 above.) ☐ You receive a credit of $ [ ] for this interest rate of [ ] %. This credit **reduces** your settlement charges. ☐ You pay a charge of $ [ ] for this interest rate of [ ] %. This charge (points) **increases** your total settlement charges. The tradeoff table on page 3 shows that you can change your total settlement charges by choosing a different interest rate for this loan.	
A Your Adjusted Origination Charges	$

EXAMPLE:

- Loan Amount: $200,000.00
- Points: 1%
- Processing Fee $500.00
- No Other 'Origination Charges'.

What should be stated in the above blocks based on this example?

<u>Only one</u> of the boxes may be checked (but one box must be checked); a credit and charge cannot occur together in the same transaction. Note

Box 1 –This box is for Lenders who include the rate or discount in the rate.

Box 2 –This box is when a credit will be given for a rate, such as YSP.

Box 3 –This box is for when there is a charge for the rate chosen, such as discount.

GFE PAGE 2 –BLOCK 3

To complete Block 3, identify each third party settlement service required and selected by the loan originator (excluding title services), and the estimated price to be paid to the provider of each service. The loan originator must identify the specific required services and provide an estimate of the price of each service.

This Block is subject to a 10% tolerance

Typical Services Disclosed by Aura Mortgage Advisors in this Block Include:

- Appraisal Fee
- Credit Report
- Flood Certification
- Tax Service Fee

3. Required services that we select

These charges are for services we require to complete your settlement. We will choose the providers of these services.

Service	*Charge*

NOTE: List the service, not the vendor name.

GFE PAGE 2 –BLOCK 4

4. Title services and lender's title insurance
   This charge includes the services of a title or settlement agent, for example, and title insurance to protect the lender, if required.

- This Block is Subject to **10% tolerance**.

The preparer must state the estimated total charge for third party settlement service providers for all closing services and any lender's title insurance premiums, when required, regardless of whether the provider is selected or paid for by the borrower, seller, or loan originator.

All fees for title searches, examinations, and endorsements should be included in this total.

GFE PAGE 2 –BLOCK 5

5. **Owner's title insurance**
   You may purchase an owner's title insurance policy to protect your interest in the property.

- This block is subject to a 10% tolerance
- An estimate of the charge for the owner's title insurance and related endorsements
- For <u>refinance transactions</u>, the originator may mark N/A.

GFE PAGE 2 –BLOCK 6

6. Required services that you can shop for
These charges are for other services that are required to complete your settlement. We can identify providers of these services or you can shop for them yourself. Our estimates for providing these services are below.

Service	*Charge*

- Subject to a 10% tolerance
- Services might include, but are not limited to:
  - ❑Roof certification
  - ❑Septic and well
  - ❑Pest inspection
  - ❑Survey

GFE PAGE 2 –BLOCK 7

7. **Government recording charges** These charges are for state and local fees to record your loan and title documents.

- Subject to 10% tolerance
- In this block, the preparer must estimate state and government fees for recording the loan.
- Typical Fees charged by Aura Mortgage:

GFE PAGE 2 –BLOCK 8

8. Transfer taxes
These charges are for state and local fees on mortgages and home sales.

- ❑ This block is subject to <u>ZERO TOLERANCE</u>
- ❑ In this block, the preparer must estimate the sum of all state and local government fees on mortgages and home sales that can be expected to be charged at settlement, based upon the proposed loan amount or sales price and of the property.

GFE PAGE 2 –BLOCK 9

9. **Initial deposit for your escrow account**
This charge is held in an escrow account to pay future recurring charges on your property and includes ☐ all property taxes, ☐ all insurance, and ☐ other ________.

- Block 9 should be completed with information related to the escrow account.

GFE PAGE 2 –BLOCK 10

10. Daily interest charges
This charge is for the daily interest on your loan from the day of your settlement until the first day of the next month or the first day of your normal mortgage payment cycle. This amount is $______ per day for ____ days (if your settlement is ________).

- This block must contain the estimated daily interest amount , the number of days and a projected closing date.
- The total amount (stated in the far right column) is provided based on the information above.
- Calculate for $100,000 loan at 6.375% for 15 days.

Total Daily Interest Charge Amount $________________

GFE PAGE 2 –BLOCK 11

Block 11 has an unlimited tolerance for change.   of the GFE contains estimates for premiums for all types of insurance (other than title insurance) that must be purchased to meet the lender's requirements to protect the property from loss, such as hazard insurance (homeowner's insurance) and flood insurance.

If flood insurance is required, it should be itemized in Block 11 on the GFE and included in the Block 11 total

11. Homeowner's insurance
This charge is for the insurance you must buy for the property to protect from a loss, such as fire.

Policy	*Charge*

PAGE 3 TRADE OFF TABLE

- The preparer must complete the left-hand column (—The loan in this GFEll) of the Tradeoff table with the information pertaining to the loan as shown on page 1 of the GFE.
- Completion of remaining columns is not required.
- The lender, at its option, may also complete the remaining sections in the Tradeoff table with the same information showing an alternate loan with a higher interest rate and one with a lower interest rate, if the loan originator has those loans available and would issue a GFE based on the same information provided by the applicant. The alternative loans must use the same loan amount and be identical to the loan in the GFE except for the interest rate and closing costs.

	The loan in this GFE	The same loan with lower settlement charges	The same loan with a lower interest rate
Your initial loan amount	$	$	$
Your initial interest rate[1]	%	%	%
Your initial monthly amount owed	$	$	$
Change in the monthly amount owed from this GFE	No change	You will pay $ **more** every month	You will pay $ **less** every month
Change in the amount you will pay at settlement with this interest rate	No change	Your settlement charges will be **reduced** by $	Your settlement charges will **increase** by $
How much your total estimated settlement charges will be	$	$	$

GFE / HUD COMPARISON

- The comparison chart must be prepared using the **exact information and amounts from the most recent GFE** and the actual settlement charges shown on the HUD-1/1ASettlement Statement.(See RESPA - Appendix A, Instruction for completing the HUD1)

Comparison of Good Faith Estimate (GFE) and HUD-1 Charges		Good Faith Estimate	HUD-1
Charges That Cannot Increase	**HUD-1 Line Number**		
Our origination charge	# 801		
Your credit or charge (points) for the specific interest rate chosen	# 802		
Your adjusted origination charges	# 803		
Transfer taxes	#1203		

Charges That in Total Cannot Increase More Than 10%		Good Faith Estimate	HUD-1
Government recording charges	# 1201		
	#		
	#		
	#		
	#		
	#		
	#		
	#		
	Total		
	Increase between GFE and HUD-1 Charges	$ or %	

Charges That Can Change		Good Faith Estimate	HUD-1
Initial deposit for your escrow account	#1001		
Daily interest charges	# 901 $ /day		
Homeowner's insurance	# 903		
	#		
	#		
	#		

Finding: Most recently disclosed GFE provided in the file does not match GFE column on HUD.

RIGHT TO CURE AND TOLERANCE VIOLATIONS

- As long as a revised HUD-1 is provided to all parties within 30 calendar days after settlement, tolerance corrections will not be considered a violation of RESPA Section 4.
- Aura typically cures tolerance issues at the closing and documents the cure on the HUD-1.

HOW TO Document a Cure: The settlement agent must prepare a revised HUD-1 that states the actual charges paid by the borrower and seller. If the lender pays for a portion of a charge to cure a potential tolerance violation, the amounts for the charge shown on page 2 of the HUD-1 must be corrected to show the actual amount charged to the borrower. The settlement agent should include on a blank line in the applicable series a notation that the lender has made a P.O.C. payment of a specified amount to correct a potential tolerance violation. After the revised HUD-1 has been prepared by the settlement agent, the settlement agent must provide the revised HUD-1 to the borrower, the lender, and the seller as appropriate.

RIGHT TO CURE AND TOLERANCE VIOLATIONS CONTINUED

The example below illustrates how a cure for $200.00 of transfer tax charges should be listed:

1200. Government Recording and Transfer Charges					
1201. Government recording charges			(from GFE #7)		
1202. Deed $	Mortgage $	Release $			
1203. Transfer taxes			(from GFE #8)	$800.00	
1204. City/County tax/stamps	Deed $ 1000.00	Mortgage $			
1205. State tax/stamps	Deed $	Mortgage $			
1206. Transfer taxes	$200 P.O.C (lender) to meet tolerance				

DOCUMENTING A CHANGED CIRCUMSTANCE

- **A "changed circumstance" is defined under RESPA as follows:**

1. Acts of God, war, disaster or other emergency
2. Change in information particular to borrower or transaction that was relied on when issuing initial GFE
3. New information particular to borrower or transaction that was not relied on in providing GFE
4. Other circumstances that are particular to borrower or transaction, including boundary disputes, need for flood insurance, or environmental problems

ISSUING A NEW GFE

When must a GFE be re-issued?

- If a revised GFE is to be issued, the loan originator must do so within 3 business days of receiving the information sufficient to establish the changed circumstance.
- 3 business days is triggered from the time information is received by the originator, mortgage broker or the lender.
- RESPA Section 3500.10 states that the borrower is entitled to review the HUD1 **<u>at least one day prior</u>** to closing.

NOTE: If you have re-issued a GFE or several GFEs, the most <u>recently disclosed GFE</u> **supersedes** all previously disclosed GFEs.

DOCUMENTING A CHANGED CIRCUMSTANCE

Typically, a GFE will be re-issued when information and/or charges are affected by:

- Changes in settlement costs
- Changes of loan program or figures
- Borrower requested changes
- When locking a rate, GFE must be reissued to update Important Dates section.

Best Practices for Documentation may include the following information (note in Encompass and use existing fields to document):

1. Description of change
2. Date of change (corresponds with re-issued GFE)
3. Which block(s) affected
4. Prior fee and resulting fee

SUMMARY OF DISCLOSURE REQUIREMENTS FOR RESPA

Disclosures Required at the Time of Loan Application

When borrowers apply for a mortgage loan lenders must give the borrowers:

- A Special Information Booklet, which contains consumer information regarding various real estate settlement services (required for purchase transactions only). To view this booklet online, see Required Booklet: Buying Your Home, Settlement Costs and Information.
- A Good Faith Estimate (GFE) of settlement costs, which lists the charges the buyer is likely to pay at settlement. This is only an estimate and the actual charges may differ. If a lender requires the borrower to use a particular settlement provider, then the lender must disclose this requirement on the GFE.
- A Mortgage Servicing Disclosure Statement, which discloses to the borrower whether the lender intends to service the loan or transfer it to another lender. It also provides information about complaint resolution.

- If the borrowers do not receive these documents at the time of application, the lender must mail them within three business days of receiving the loan application. If the lender turns down the loan within three days, however, then RESPA does not require the lender to provide these documents.

SUMMARY OF DISCLOSURE REQUIREMENTS FOR RESPA

Disclosures before Settlement/Closing Occurs

- Affiliated Business Arrangement Disclosure (presently n/a for Aura): This disclosure is required whenever a settlement service provider involved in a RESPA covered transaction refers the consumer to a provider with whom the referring party has an ownership or other beneficial interest. The referring party must give the AfBA disclosure to the consumer at or prior to the time of referral.
- HUD-1 Settlement Statement - This is a standard form that clearly shows all charges imposed on borrowers and sellers in connection with the settlement. RESPA allows the borrower to request to see the HUD-1 Settlement Statement one day before the actual settlement. The settlement agent must then provide the borrowers with a completed HUD-1 Settlement Statement based on information known to the agent at that time. For a sample HUD-1, see: Blank HUD-1 Settlement Statement; for descriptions of various sections, see: HUD-1 Section J (lines 100-303) and HUD-1 Section L (lines 700-1400).

Disclosures at Settlement

- HUD-1 Settlement Statement: At closing, the HUD-1 shows the actual settlement costs of the loan transaction. Separate forms may be prepared for the borrower and the seller. Where it is not the practice that the borrower and the seller both attend the settlement, the HUD-1 should be mailed or delivered as soon as practicable after settlement.

- Initial Escrow Statement: This document itemizes the estimated taxes, insurance premiums and other charges anticipated to be paid from the Escrow Account during the first twelve months of the loan. It lists the Escrow payment amount and any required cushion. Although the statement is usually given at settlement, the lender has 45 days from settlement to deliver it.

SUMMARY OF DISCLOSURE REQUIREMENTS FOR RESPA

Disclosures after Settlement (Servicing)

- Annual Escrow Statement: Loan servicers must deliver this statement to borrowers once a year. The annual escrow account statement summarizes all escrow account deposits and payments during the servicer's twelve month computation year. It also notifies the borrower of any shortages or surpluses in the account and advises the borrower about the course of action being taken.

- Servicing Transfer Statement: This document is required if the loan servicer sells or assigns the servicing rights to a borrower's loan to another loan servicer. Generally, the loan servicer must notify the borrower 15 days before the effective date of the loan transfer. As long the borrower makes a timely payment to the old servicer within 60 days of the loan transfer, the borrower cannot be penalized. The notice must include the name and address of the new servicer, toll-free telephone numbers, and the date the new servicer will begin accepting payments.

RESPA LOAN SERVICING COMPLAINTS (SECTION 6)

Section 6 of RESPA provides borrowers with important consumer protections relating to the servicing of their loans. Under Section 6 of RESPA, borrowers who have a problem with the servicing of their loan (including escrow account questions), should contact their loan servicer in writing, outlining the nature of their complaint (see our sample lender complaint letter).

- The servicer must acknowledge the complaint in writing within 20 business days of receipt of the complaint.
- Within 60 business days the servicer must resolve the complaint by correcting the account or giving a statement of the reasons for its position. Until the complaint is resolved, borrowers should continue to make the servicer's required payment. Borrowers may bring a lawsuit for violations of Section 6 within three years and may obtain actual damages, as well as additional damages, if there is a pattern of noncompliance

RESPA KICKBACKS, FEE-SPLITTING, UNEARNED FEES (SECTION 8)

- Section 8 of RESPA prohibits anyone from giving or accepting a fee, kickback or any thing of value in exchange for referrals of settlement service business involving a federally related mortgage loan. In addition, RESPA prohibits fee splitting and receiving unearned fees for services not actually performed.
- Violations of Section 8's anti-kickback, referral fees and unearned fees provisions of RESPA are subject to criminal and civil penalties. In a criminal case a person who violates Section 8 may be fined up to $10,000 and imprisoned up to one year. In a private law suit a person who violates Section 8 may be liable to the person charged for the settlement service an amount equal to three times the amount of the charge paid for the service

TILA OVERVIEW

- TILA Background and Purpose
- Core Requirements of TILA for Mortgage Loans
- Pre-Paid Finance Charges
- Refinances and Right of Rescission
- HPML's
- HOEPA-HIGH COST LOANS Federal and State
- RESPA and TILA Q and A

TILA BACKGROUND AND PURPOSE

- First enacted in 1968 to prevent abuses in consumer credit cost disclosures
- Originally solely a disclosure statute
- Through amendment now more than a disclosure law
- Contains some substantive requirements prohibitions
  (particularly for mortgage loans)
- Applies to credit offered or extended to a natural person primarily for personal, family, or household purposes.
- Does not apply to loans made primarily for a business, commercial, or agricultural purposes

NOTE: This program was designed for Aura Mortgage Lending Staff. Please Note, TILA Also Contains **robust advertising rules for mortgage lending which have been provided to the Marketing Department. This material does not include those requirements.**

TILA BACKGROUND AND PURPOSE CONTINUED

- The Truth in Lending Act promotes consumer awareness of terms and costs of credit. The Law and its implementing Regulation _____ are meant to protect consumers from fraud, predatory lending and misrepresentation of terms by creditors, the act requires a creditor to clearly disclose important terms to its borrowers for covered transactions.

- The Dodd Frank Act introduced new amendments to TILA including increasing the threshold for consumer credit transactions that are exempt from the Truth- in -Lending Act. The Act also included a change in Jumbo HPML escrow requirements. In addition, new Mortgage Disclosure Improvement Act requirements calling for clear disclosure of how loan payments may change over time became effective in January of 2011.

CORE DISCLOSURE REQUIREMENTS

SUMMARY OF REQUIRED DISCLOSURES:

- TILA "Initial" Disclosure Statement
- ARM Disclosures (if applicable)
- HOEPA/Section 32 Mortgage Loan Disclosure (if applicable)
- "Final" Truth-in-Lending Disclosure Statement
- Notices of Right of Rescission (refinances only)

Disclosures must be clear and conspicuous, in a written form that the consumer may keep.

CORE REQUIREMENTS OF TILA

Quick Review of TILA Requirements that Have not Changed in 2010-11	
General Disclosure Requirements **TILA Disclosure**	In general, the following information must be disclosed. Items marked with a * are disclosed as applicable to a particular transaction. □ Creditor's Identity □ Finance Charge □ Annual Percentage Rate (APR) □ Amount Financed (and itemization) **Must be distinct** □ Variable Rate Information* □ **Interest Rate and Payment Schedule in Tabular Format (new)** □ Insurance/Debt Cancellation* □ Late Payment Penalties* □ Assumption Policy (residential transactions only) □ Payment Schedule □ Demand Feature * □ Prepayment, Rebates or Penalties* □ Security Interests * □ Contract Reference □ Correct Representation of Finance Charge, APR, Amount Financed, and for loans with PMI, correct representation of the cutoff in the payment stream and finance charge. □ Statement: *You are not required to complete this agreement merely because you have received these disclosures or signed a loan application.* □ **Statement: *There is no guarantee the loan can be refinanced.*(New)**

QUICK TILA REVIEW CONTINUED

Prepaid Finance Charges that Impact the APR. Prepaid Finance Charges Generally Include

☑	☑
☑	☑
☑	☑

IMPORTANT NOTE: Consider changes to fee schedules carefully. Characterizing charges as exclusions from Finance Charge must be done carefully.
incorrect characterizations lead to TILA violations

ARM Loan Disclosure Requirements are n/a for Aura Mortgage since only Fixed Rate loans are offered.

REFINANCES AND RIGHT OF RESCISSION UNDER TILA

Refinance Transactions-Notice of Right to Rescind the Transaction for Refinance

Consumer may exercise a right to rescind until the later of:

- Midnight of the 3rdbusiness day following loan consummation
- Delivery of two copies of the right to rescind
- Delivery of a complete and accurate TILA disclosure statement

IMPORTANT: If either the rescission notices or the complete and accurate disclosure statement are not provide, the consumer has 3 years after loan consummation to rescind.

If a consumer validly exercises a right to rescind, the transaction is cancelled and the consumer is not liable for any amounts paid or to be paid in connection with the loan. (Consumer gets money back)

TILA REVIEW OF CORE COMPLIANCE REQUIREMENTS

- ☑Truth-in-Lending Disclosures ("TIL") must be provided to the customer within _____ days of submission of a complete mortgage application (purchases and refinances).
- ☑The lender cannot collect any fees associated with the mortgage, with the exception of a fee for a _______ _________, until the applicant has received a TILA Disclosure NOTE: If mailed, you must wait three days for it to be delivered to the customer before collecting any fees from the customer.
- Alternative: Provide the customer with the disclosure at the time of application.
- ☑Once the early disclosures are provided to the customer, there must be a waiting period of at least ____ business days before the loan closing occurs.
- ☑If a change occurs that results in the Annual Percentage Rate provided to the customer in the early disclosure to be inaccurate beyond a specified tolerance (1/8 of one percent for regular loans and _____ of one percent for irregular loans (_______ or Construction loans) a new disclosure containing the revised Annual Percentage Rate must be provided to the customer.
- ☑If a revised disclosure is provided to the customer because the originally disclosed Annual Percentage Rate is inaccurate beyond tolerance, there must be a ______ __________ of at least _______ additional business days from when the customer receives the disclosure before the loan closing.
- Bonus Question: What if the re-disclosures are mailed?
- ☑If the customer has a personal financial emergency the closing may be expedited . NOTE: This must be a bona fide personal financial emergency (such as the customer will face foreclosure if the loan doesn't close by a certain date).
- ☑All initial TIL disclosures must include the following statement: "You are not required to complete this agreement merely because you have received these disclosures or signed a _________ ______________."

HIGHER PRICED MORTGAGE LOAN PROVISIONS

In 2009, provisions of TILA established a new category of "higher-priced mortgages" that includes virtually all closed-end subprime loans secured by a consumer's principal dwelling. Which loans qualify as "higher-priced" will be determined by a new index that will be published by the Federal Reserve Board.

- ☑ For first liens 1.5 percentage points above the "average prime offer rate"
- ☑ For subordinate-lien loans 3.5 percentage points over the "prime offer rate"

Provisions of the Regulation

- Prohibit a lender from making a loan without considering the borrowers' ability to repay the loan from income and assets other than the home's value. A lender complies, in part, by assessing repayment ability based on the highest scheduled payment in the first seven years of the loan
- Bans any prepayment penalty if the payment can change during the initial four years. For other higher-priced loans, a prepayment penalty period cannot last for more than two years.
- Requires that the lender establish an escrow account for the payment of property taxes and homeowners' insurance for first-lien loans. The lender may offer the borrower the opportunity to cancel the escrow account after one year

NOTE: See the 2011 update on the next page related to the Jumbo Loan rate spread for purposes of determining whether mandatory escrows apply.

DOCUMENT HPML AND HIGH COST TEST CALCULATIONS

- Run the HPML Rate Test (FFIEC Rate Spread Calculator) and Retain the Print Out.
- Run the State HIGH Cost Loan Test (to date no high costs loans made based on State or Federal Rate Spreads).

HPML RULES AND JUMBO MORTGAGES

HPML's and Jumbo Loans 	On February 21, 2011, the Federal Reserve Board finalized its earlier proposal for escrow accounts for first lien **higher-priced mortgage loans** based on provisions of the Wall Street Reform and Consumer Financial Protection Act of 2010 ("Dodd-Frank Act"). The final rule applies a ____% threshold for purposes of the mandatory escrow account requirement for first lien jumbo loans, the threshold for the applicability of all other provisions for HPMLs remains at **1.5%** over the applicable APOR. For example, a first lien loan whose APR is 2.25% over the applicable HPML, will be not be subject to the mandatory escrow account requirement in Section 226.35. However, the loan will be subject to all of the other requirements for HPMLs, including the ability to repay rule and the restrictions on prepayment penalties. All subordinate lien loans with APRs of 3.5% or more above the applicable APOR will continue to qualify as HPMLs, although the mandatory escrow requirement is not applicable to subordinate lien loans.

MDIA DISCLOSURES

MDIA Disclosure as to how borrower mortgage payments may change over time	For applications received as of January 30, 2011, lenders must disclose how borrowers' mortgage payments can change over time. The new TIL disclosure includes an Interest Rate and Payment Summary table. This rule includes transactions secured by real property with no dwelling, thus the enhanced disclosure requirements now apply to all mortgage-secured, closed-end, consumer credit transactions. Lender disclosures must be substantially similar to the model clauses provided. The FRB rule provides four model tables: □ Fixed Rate Mortgage □ Adjustable-Rate Mortgage (or Step-Rate Mortgage), □ Interest-Only Mortgages and; □ Mortgages with Negative Amortization.

MDIA DISCLOSURES CONTINUED

Additional Disclosures	The rule also requires creditors to provide an introductory rate disclosure if the borrower's interest rate at consummation is less than the fully indexed rate, as well as interest-only and balloon disclosures, if necessary. For all closed-end loans secured by real property or a dwelling, the TILA disclosure must include the following statement: "There is no guarantee to refinance the transaction to lower the interest rate or periodic payments." Imposes disclosure requirements for loans with **Negative Amortization** features.

HIGH COST MORTGAGE LOANS

"HOEPA or High Rate/High Cost Mortgage Loan (Section 32 TILA Loans)"   NOTE MASSACHUSSETS HAS ITS OWN HIGH COST LOAN RULES-PLEASE CONSULT MASS REGULATION

Federal HIGH COST Definition:

- Loan that is secured by the consumer's principal dwelling, and in which either:
- •APR will exceed by more than 8% for first-lien loans, or by more than 10% for subordinate-lien loans, the yield on Treasury securities having comparable maturity periods to the loan maturity as of the 15th day of the month immediately preceding the month in which the application is received by the creditor; or
- •Total "points and fees"paid at or before loan closing will exceed the greater of 8% of the "total loan amount."

NOTE: To date, AURA Mortgage Advisors (SUN) has not originated any high cost mortgage loans.

RESPA AND TILA Q AND A

What questions do you have?