

April 15, 2015

Legal Update

The “Know Before You Owe” Disclosure Forms Issued by the Consumer Financial Protection Bureau Will Soon Take Effect

On November 20, 2013, the U. S. Consumer Financial Protection Bureau (“CFPB”) issued final rules under Regulations X and Z to amend the existing requirements for mortgage disclosures (the “Final Rules”). The Final Rules, that integrate the existing Real Estate Settlement Practices Act of 1974, as amended (“RESPA”), and the Truth in Lending Act of 1968, as amended (“TILA”), will be effective for applications received on or after **August 1st, 2015**.

The Final Rules are intended to help consumers better understand the key terms of a mortgage offer and its associated costs, allowing consumers to easily compare different loan offers. The CFPB refers to the new disclosure forms as the “Know Before You Owe” disclosure forms.

In a nutshell, the Final Rules combine the two sets of disclosures that consumers currently receive under TILA and RESPA when applying for and closing on a mortgage loan: the Good Faith Estimate (“GFE”) required under RESPA and the Initial Disclosure required under TILA. These two forms will be replaced by the **Loan Estimate Form**.

The Loan Estimate Form must be provided to borrowers within three business days of the “receipt” of the loan application and covers the following:

- key mortgage loan terms, projected payment amount scenarios and costs at closing;
- break down of closing costs, other costs and estimated cash to close;
- total payments over 5 years, APR, Total Interest Percentage, and disclaimers such as potential need for appraisals, whether the loan is assumable, whether homeowner’s insurance is required, brief information regarding late payment policies, refinancing not guaranteed, and possibility of servicing transfer.

Also, borrowers currently receive the HUD – 1 Settlement Statement and final TILA forms at the end of the transaction. These forms will now be replaced by the **Closing Disclosure Form**. This new form will be used to disclose many of the terms and provisions of the loan, as well as the financial transaction costs of the closing.

After delivery of the initial Closing Disclosure Form, changes may require a re-disclosure and new waiting period if certain changes take place, such as, an increase of APR by greater than 1/8%, change in loan program such as Fixed Rate to Adjustable Rate Mortgage or addition of pre-payment penalty after the



For more information on this Legal Update, please contact:

Héctor Reichard

reichard@reichardescalera.com
787.777.8801

Juan Carlos Méndez

jcmendez@reichardescalera.com
787.777.8834

Claudia Motta

cmotta@reichardescalera.com
787.777.8830

Ana Mercedes Faría

afaria@reichardescalera.com
787.777.8832

initial disclosure. The Content requirements of the Closing Disclosure Form include:

- Key mortgage loan terms, projected payment amount scenarios and costs at closing;
- Break down of closing costs, other costs, cash to close and summaries of transactions, split between borrower and seller information;
- Total payments, finance charge, amount financed, APR, Total Interest Percentage, and disclaimers such as potential need for appraisals, whether the loan is assumable, whether homeowner's insurance is required, brief information regarding late payment policies, partial payments, escrow accounts, refinancing not guaranteed, and possibility of servicing transfer.

The mortgages covered by the new disclosure rules are closed-end consumer credit transactions backed by real property and subject to RESPA. This includes loans on secured properties covering 25 acres or more, loans secured by vacant land on which a home will be constructed or placed using the loan proceeds within 2 years after settlement, and temporary loans secured by real estate (construction-only loans). The new rules do not apply to Home Equity Lines of Credit, reverse mortgages, mortgages secured by a mobile home or a dwelling that is not attached to land; or to loans made by a creditor who makes five or fewer mortgage loans in a year.

This communication is for information purposes only and does not constitute legal advice. This communication may be based on authorities that are subject to change and is not a substitute for professional advice or services. You should consult a qualified professional advisor before taking any action based on the information herein. This communication does not create an attorney-client relationship between Reichard & Escalera and the recipient.

[Unsubscribe.](#)