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Friday, May 20, 2011

Combining the GFE and TIL Disclosures



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The Consumer Financial Protection Bureau (CFPB) announced on May 18, 2011 that it has created **two alternative prototype forms** that are designed to combine the consumer disclosures required by the Truth in Lending Act (TILA) and the Real Estate Settlement Procedures Act (RESPA). The creation of a combined form is required by the Dodd-Frank Act.

The CFPB will use the prototypes in a testing process that will last several months in preparation for the agency's formal proposal of a single form. The agency said that it plans five rounds of evaluation and revision before settling on a final form, and the process will use forms in both English and Spanish.

The prototypes both offer disclosures for a \$216,000 adjustable rate mortgage loan. They combine the disclosures required by the current RESPA Good Faith Estimate of Closing Costs and the current TILA disclosures in two-page formats. By selecting the right options, it is possible not only to review the two prototypes but also to comment on which of the two is better and why. The CFPB's webpage also offers separate comment possibilities for consumers and industry participants.

The testing and public feedback process will enable the CFPB to revise the design and refine the content based on how it works for consumers to develop a single form that will officially replace the dual TILA and RESPA disclosure requirements.

The purpose of combining and simplifying the GFE and TIL is to reduce the regulatory burden on mortgage lenders.



Twofer

According to the CFPB, "the feedback process we're starting today is one of the first steps in combining the Truth in Lending form and the Good Faith Estimate into a single, simpler disclosure form."

The new form will consist of two pages. **Page one** provides an overview of the costs related to the origination of the loan and the monthly payment the consumer can expect, as well as whether or not the amount of that payment will change over time. **Page two** offers a more detailed explanation of the cost breakdown.

With respect to the prototype forms proffered, here are the questions about which the CFPB requests consideration:

- Would this form help consumers understand the true costs and risks of a mortgage?
- Could lenders and brokers clearly and easily explain the form to their customers?
- What would you like to see improved on the form?
- Is there some way to make things a little bit clearer?



Learning from the Mortgage Industry

What is interesting about the CFPB's approach to this major overhaul is its forthright attitude. In offering the new form for industry evaluation, its announcement states that:

"at the heart of our work is the idea that the consumer financial product and services market should work for you. We think we should learn from you what you want to see. One of the best ways to do that is also the simplest: we're asking."

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For industry participants accustomed to being told what to do, not asked, this is a welcome attitude. Even when regulators have asked industry members for comments, as a requirement of statutory authority and rulemaking, often most comments are not adopted, adapted, or, in some cases, even acknowledged.

But it should be noted that this is only a first step in a process that will last several months. The testing phase of the disclosure prototypes will take place over the next several months and involve one-on-one interviews with consumers, lenders, and brokers.

CFPB expects to conduct five rounds of evaluation and revisions through September 2011. Initial rounds of testing will include both English and Spanish language versions. Interviews will be conducted in six cities: Albuquerque, New Mexico; Baltimore, Maryland; Birmingham, Alabama; Chicago, Illinois; Los Angeles, California; and Springfield, Massachusetts.

Yet, the CFPB lets us know, even though the process will take some time, "there will be more opportunities to weigh in as we move forward."

What this suggests is that the industry would do well to assist, rather than to resist, the type of cooperation that the CFPB wants to encourage. Ultimately, what is good for the consumer is good for the industry - that is a concept that the industry itself has always maintained as central to its mission.



Option A or Option B

Of course, commentators will bring their own ideas about the way the form should be designed. Such participation is very important.

Many will look to extrapolate the existing ways of disclosing on the currently separate GFE and TIL disclosures into the new CFPB combined form. That also is needed and valuable.

However you view it, contributing to the process is much better than sitting on the sidelines without an opinion - or not expressing it when given the opportunity.



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Proposal to combine GFE and TIL Disclosures (Option A and Option B) (5/18/11)

GFE and TIL: Option A
GFE and TIL: Option B



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