

Housing industry braces for new mortgage disclosure rules

By: David Winzelberg June 26, 2015 0

Sweeping changes to federal mortgage disclosure requirements due to take effect August 1 have been pushed back two months, but area mortgage lenders, real estate brokers and real estate attorneys are scrambling to get up to speed on the new rules they say will reshape the way houses are sold and may eventually raise closing fees.

Dubbed "Know Before You Owe," the new disclosure regulations pitched by the federal Consumer Financial Protection Bureau are aimed at preventing bait-and-switch lending practices that were prevalent during the subprime mortgage crisis nearly a decade ago.

The new rules' biggest change is a three-day notification period that forces lenders to disclose loan details to borrowers on any prospective home purchase, even if those borrowers don't go through with buying a particular property. The result of this will be delayed home-sale closings and a lot of extra paperwork for mortgage brokers and lenders.

The way it works now, mortgage lenders could clear a loan to close and go to the closing table that same day or the next. But with the new rules, the borrower must receive and acknowledge a fresh mortgage disclosure – an additional 72-hour process – if there is any change in the loans' annual percentage rate.

"The days of getting a loan cleared and scheduled right away are over," said Bruce Silva, an executive vice president with [CHL Mortgage](#) in Melville, the largest FHA lender in the state. "It's a game-changer from application to closing from how we do it now."

Under the new rules, every time a mortgage application is generated, the lender must provide a multi-page loan disclosure report to the borrower who has three days to acknowledge it. But the lender has to start a whole new disclosure report if the borrower doesn't send an acknowledgement within three days or if the borrower chooses a different property, which happens often.

"And if the borrower doesn't go through with the sale, all of that paperwork is useless," Silva said.

The new requirements combine mandates from two pieces of federal legislation, the Truth In Lending Act and the Real Estate Settlement and Procedures Act, into one integrated disclosure known in the industry as TRID.

For lenders, the new rules will require software upgrades as well as more labor and time spent serving potential customers, which could result in banks raising their closing fees to cover the extra costs.

"Higher fees are certainly a very real possibility," said Ron Haynie, senior vice president of the [Independent Community Bankers of America](#), a Washington, D.C.-based trade group.

Another factor is hefty fines of up to \$4,000 for faulty disclosures, even if the mistakes were inadvertent.

"There are humans involved in the process," Haynie told LIBN. "People are scared they could make an error that costs them."

The most daunting challenge that the new rules have wrought is coordinating the multiple moving parts that make up a home sale, already a tricky production to choreograph. There are the attorneys, the title company, the real estate brokers, the lender, even the moving company to consider when scheduling a home-sale closing, something the three-day disclosure – and the possibility of additional disclosure periods – just makes more difficult.

"It's obviously going to be an inconvenience in setting closings," said Joe Moshe, owner/broker of Plainview-based [Charles Rutenberg Realty](#). "Bankers and attorneys will have to get their Xs and Os together."

The New York State Association of Realtors applauded the two-month extension of the integrated disclosure rollout, saying it will give brokers more time to prepare for the changes. CHL Mortgage, like others in the housing industry, has already been operating under mock TRID conditions since June 15.

"We're prepared and we're working out the bugs so we can hit the ground running," Silva said.

Tagged with: [CLOSING FEE](#) [HOUSING INDUSTRY](#) [LONG ISLAND](#) [MORTGAGE DISCLOSURE RULES](#)