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- [Home](#)
- [Blog](#)
- [Know Before You Owe: The last dance...or is it?](#)

Feb 19 2012



Know Before You Owe: The last dance...or is it?

By [The CFPB Mortgage Disclosure Team](#)

This week we are in Austin, Texas! We're conducting the final round of testing of the integrated disclosures you receive at two different points in the mortgage process. You receive the first when applying for a loan, and you get the other at closing. After this, we'll be shifting to the second phase of this project: writing the proposed rules for these disclosures. But before we move on to the next phase, we need your help one more time.

We'd like you to share your thoughts on these revised prototypes for the Loan Estimate and the Settlement Disclosure. Because there is only one prototype for each disclosure, we're not going to use the side-by-side comparison tool this time. To weigh in, post a comment to this blog or email us at KnowBeforeYouOwe@cfpb.gov.

Loan Estimate

DATE ISSUED 1/3/2012
APPLICANTS James White and Jane Johnson
 123 Anywhere Street, Apt 678
 Anytown, TX 12345
PROPERTY 456 Avenue A, Anytown, TX 12345
SALE PRICE \$240,000

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT 5 Year Interest Only, 5/3 Adjustable Rate
LOAN TYPE Conventional FHA VA
LOAN ID # 1330172608
RATE LOCK NO YES, until 2/29/2012 at 3:00 p.m. CST.
 Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on 5/18/2012 at 3:00 p.m. CST.

Loan Terms	Can this amount increase after closing?	
Loan Amount	\$211,000	NO
Interest Rate	4.375%	YES <ul style="list-style-type: none"> Adjusts every three years starting in year 6 Can go as high as 8% in year 9 See AIR table on page 2 for details
Monthly Principal & Interest <small>See Projected Payments Below for Your Total Monthly Payment</small>	\$769.27	YES <ul style="list-style-type: none"> Adjusts every three years starting in year 6 Can go as high as \$1,622 in year 9 Includes interest only and no principal until year 6 See AP table on page 2 for details
Does the loan have these features?		
Prepayment Penalty	NO	
Balloon Payment	NO	

Projected Payments				
Payment Calculation	Years 1-5	Years 6-8	Years 9-11	Years 12-30
Principal & Interest	\$769.27	\$1,233 min \$1,542 max	\$1,233 min \$1,622 max	\$1,233 min \$1,622 max
Mortgage Insurance	+ 107	+ 107	+ 107	+ —
Estimated Escrow <small>Amount Can Increase Over Time</small>	+ 533	+ 533	+ 533	+ 533
Estimated Total Monthly Payment	\$1,409	\$1,873 – \$2,182	\$1,873 – \$2,262	\$1,766 – \$2,155
Escrow Information for Taxes, Insurance & Assessments <small>Amount Can Increase Over Time</small>	\$533 a month	<input checked="" type="checkbox"/> Escrow. Your escrow payment covers the taxes, insurance & assessments listed in Section G on page 2. You must pay for other property costs separately. <input type="checkbox"/> No Escrow. You must pay all of your taxes, insurance & assessments separately from your loan payments.		

Closing Costs	
Estimated Cash to Close	\$32,120 <small>Closing Costs include \$5,963 in estimated Settlement Fees. See details on page 2.</small>

Visit www.consumerfinance.gov/learnmore for general information and tools.

[View the full size loan estimate.](#)

Settlement Disclosure

This form is a statement of final loan terms and closing costs. Compare this document with your Loan Estimate.

SETTLEMENT INFORMATION

DATE 2/21/2012
AGENT ABC Settlement
FILE # 01234
PROPERTY 436 Avenue B,
Anytown, TX 12345
SALE PRICE \$240,000

TRANSACTION INFORMATION

BORROWER James White and Jane Johnson
123 Anywhere Street, Apt 678
Anytown, TX 12345
SELLER John Wilson
123 Somewhere Drive
Anytown, TX 12345
LENDER Basswood Bank

LOAN INFORMATION

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT 5 Year Interest Only,
5/3 Adjustable Rate
LOAN TYPE Conventional FHA
 VA
LOAN ID # 1330172608
MIC # 56789

Loan Terms	Can this amount increase after closing?	
Loan Amount	\$216,500	NO
Interest Rate	4.375%	YES • Adjusts every three years starting in year 6 • Can go as high as 8% in year 9 • See AIR table on page 4 for details
Monthly Principal & Interest <small>See Projected Payments Below for Your Total Monthly Payment</small>	\$789.32	YES • Adjusts every three years starting in year 6 • Can go as high as \$1,664 in year 9 • Includes interest only and no principal until year 6 • See AP table on page 4 for details
Prepayment Penalty	NO	
Balloon Payment	NO	

Projected Payments

Payment Calculation	Years 1-5	Years 6-8	Years 9-11	Years 12-30
Principal & Interest	\$789.32	\$1,266 min \$1,582 max	\$1,266 min \$1,664 max	\$1,266 min \$1,664 max
Mortgage Insurance	+ 164.18	+ 164.18	+ 164.18	+ —
Estimated Escrow <small>Amount Can Increase Over Time</small>	+ 699.50	+ 699.50	+ 699.50	+ 699.50
Estimated Total Monthly Payment	\$1,653.00	\$2,130 – \$2,446	\$2,130 – \$2,528	\$1,966 – \$2,364

Escrow Information for Taxes, Insurance & Assessments
Amount Can Increase Over Time See Details on Page 4

\$842.09 a month	<input checked="" type="checkbox"/> Escrow. Your escrow payment covers the taxes, insurance & assessments listed in Section G on page 2. You must pay for other property costs separately. <input type="checkbox"/> No Escrow. You must pay all of your taxes, insurance & assessments separately from your loan payments.
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Closing Costs

Cash to Close	\$29,826.23	Closing Costs include \$6,409.00 in Settlement Fees. See details on page 2.
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SETTLEMENT DISCLOSURE

PAGE 1 OF 5 - LOAN ID # 1330172608

[View the full size settlement disclosure.](#)

As you look at these prototypes, think about these questions:

- Can you easily find key loan terms?
- Are you able to identify changes to the loan terms or costs?
- Do you know who to contact to discuss your loan or changes to your loan?
- Do you have the information you would need to feel comfortable closing on the loan?
- Are the disclosures easy for lenders and settlement agents to use and explain to consumers?

You'll notice that these prototypes use a similar format for closing costs, enabling the two forms to work well together. We've also tried to make the forms look consistent in other ways, like using similar terminology. Before they sign on the dotted line, we want consumers to have a clear understanding of both what they owe and whether it's what they were expecting. That's what Know Before You Owe is all about.

As we test these revised prototypes this week with consumers and industry in Austin, we'll review your feedback, too. Then we'll take what we've learned to revise the prototypes again.

Once this round is over, we'll put our suitcases away and get to work on writing the rules that govern these disclosures. It's a tough job, because the rules have to be clear enough so that industry understands how to fill out the forms. And if there's anything that we've learned from you, it's that there is no lack of variety when it comes to mortgage loans and real estate transactions.

Over the next few months, we will be working on the proposed rule. Although you won't hear from us as often,

please be on the lookout for more information about our upcoming SBREFA panel process. During SBREFA, we will reach out to small financial service providers about the potential impact of our prototype disclosures and the proposals we are considering releasing this summer. During SBREFA and after we release the proposed rule, you will have the opportunity to learn more and to provide your feedback.

For now, we hope you'll take the opportunity to provide us with feedback on these prototypes. We want to know what you think! If you want to share your thoughts with us, simply post a comment to this blog or [shoot us an e-mail](#).

It's hard to believe that nine months have passed since we first started this project. Each month, we presented different versions of the prototype disclosures and asked for your thoughts and feedback on the forms. In each round, you gave us your recommendations and voiced your concerns, which helped us create forms that work better for you. It's been a long haul, and we can't thank you enough for sticking with us.

You have made this project a success, most importantly by making these disclosures better. We hope you'll provide us with feedback on these disclosures in the comments or by e-mail. And keep an eye out for our proposed rule this summer!



Categories: [Know Before You Owe](#) | [Mortgage Disclosure](#) | [Mortgages](#)

PJ Garcia

Thank you for this process and the invitation to participate and comment, once again.

I am a 32 year veteran escrow officer in California. I have shown the various versions of the proposed forms to some of my clients for their reaction. It is invariably confusion and dismay! Seriously, there are so many pages (50 to 150) of documents presented to the poor borrower at their loan signing, they go into a trance. There is a serious disclosure fatigue going on. If this were the core document they received along with their Note and Trust Deed and maybe a few other pages, we might be talking, but the reality is quite different. As the professional who gets the pleasure (and yes, I USED to enjoy it) of helping people through this process and successfully into their new home, I share their dismay. We settlement agents in California, and I'm sure elsewhere, have ALWAYS had our own simple debit/credit statement that is given to Consumers along with both the previous and current HUD-1 to aid their understanding of their costs.

As an industry, we just went through a major upheaval in training and expense to implement the 2010 version of the HUD-1 Settlement Statement. As a small business owner, I am really quite concerned about the economic impact of doing it all again, especially since I don't believe consumers will derive any significant benefit.

This form has some good qualities and I like the uniformity. I think attempting to implement it will be a nightmare, unless the entire responsibility is given to the lender, where it belongs. I don't know how multiple players fill out one form. It is already challenging for my peers to get the current Page 3 information from lenders and even difficult to get clear and accurate information to completed the settlement costs, which the lender's now believe they are in complete control of (not true). That said, it is not realistic or fair to lenders to make them responsible for third party costs, most of which (like title

and escrow) consumers in a home purchase seek and obtain, even in a cash purchase.

If you really want to help consumers streamline the GFE and TILA forms in a manor like the proposal and keep the HUD-1 separate. Get rid of any idea that the lender is responsible for tolerances on third party costs for any service not specifically used for the loan, such as title, escrow and other settlement services that benefit consumers outside of the loan and make it clear to lender's that CONSUMERS, not they are in charge of the selection of those service providers and that lenders are not allowed to interfere in the relationship between the selected service provider and the consumer. My statutory role as a neutral third party fiduciary is almost impossible to attain in the current, lender centric environment. Also, mandate that the documents be provided to consumers 24-72 (pick a number) hours prior to SIGNING. Part of the problem is that most consumers are given this massive stack of documents with no advance review and have to speed sign because the documents arrived at or after the contractual closing time and the lender's can take 24-72 hours after the signing to fund for recording/closing.

Lynneh

From an Escrow Officer standpoint, I don't think a seller needs to have 4 of 5 pages of Settlement Statement to wade through when the information on those pages have nothing to do with the seller. How do explain to a seller at the closing table that they should ignore all of the buyer's loan information and just look at one of the 5 pages? Since the RESPA regulations require a HUD-1 Settlement Statement be used for a government related mortgage, maybe the HUD-1 should be used for just that. Either the closing statement for the sale between a buyer and seller should be a separate document or just on page one for the seller's benefit. Four or five seller debit/credits does not require five pages of information, yet lenders are requiring seller signature on the HUD-1.

Ventureappraisal

Hello,

Please do not make this final until you split the appraisal fee from the AMC fee. The form is misleading as it is. The homeowner will think they are getting a \$305 appraisal. When it is quite possible they are getting a \$195 appraisal and paying the rest to a management company.

If the purpose of these revisions is to make things clear to the homeowner, that has not been accomplished when left as-is.

Please revise the form again.

Thanks.

Respectfully,

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