



## Simpler U.S. Mortgage Forms May Include New Cost Formula

By Carter Dougherty - Jun 18, 2012 8:04 PM ET

The U.S. Consumer Financial Protection Bureau is close to revealing the details of its marquee project: reducing the reams of paperwork that borrowers must hack through when getting a mortgage.

The project, designed to benefit consumers and lenders, began more than year ago to consolidate and simplify forms that federal law requires that lenders provide to borrowers. In May 2011 the agency started releasing model disclosure forms that it said were easier to read and understand.

In previewing its proposal, which must be released by July 21, the bureau has also said that over the last few months it is considering modifying core mortgage disclosure requirements, such as how the annual percentage rate is calculated. The plan is drawing fire from banks and consumer advocates alike.

“Given the amount of effort here, there’s not a lot of bang for the buck in only deciding whether you do 10-point or 12-point font,” Mark Calabria, director of financial regulation studies at the Washington-based [Cato Institute](#), said in an interview.

The proposal will be the first in a series of rulemakings that will reshape mortgage lending for giants including [Wells Fargo & Co. \(WFC\)](#) and [Bank of America Corp.](#) Subsequent rules will outline the responsibilities of lenders in underwriting, securitization and servicing. The bureau’s deputy director, Raj Date, is scheduled to testify tomorrow at a House Financial Services Committee hearing about the forms.

Warren’s Model

[Elizabeth Warren](#), the Democratic U.S. Senate candidate and Harvard University professor who set up the consumer bureau, kicked off the effort in May 2011 by releasing a model form that

would allow consumers to shop around for mortgages. The bureau subsequently introduced a model form for finalizing a mortgage - - known as closing, or settlement -- and tested it with focus groups of consumers.

The project stems from a mandate in the Dodd-Frank Act of 2010 to break a decades-old stalemate in federal mortgage policy.

The Truth in Lending Act, administered by the [Federal Reserve](#), and the Real Estate Settlement Procedures Act, overseen by the Department of Housing and Urban Development, both required separate forms for getting a mortgage estimate and for closing. Repeated efforts to harmonize the two forms failed, Calabria said, so Congress in Dodd-Frank charged the new consumer agency, now the steward of both laws, with the task.

Against the backdrop of other coming rules, the Consumer Bankers Association has urged the consumer bureau to limit the July proposal to the new forms and regulations to support them.

‘Organized Approach’

“Not only would this be a more organized approach for the industry that must comply with all of these massive changes, but we believe consumers will be less confused,” Jeffrey Bloch, the group’s associate general counsel, wrote in an April 16 letter.

The consumer bureau announced in a Feb. 21 [advisory](#) posted on its website that it is considering major changes to the use of the annual percentage rate, the key metric laid down in the Truth in Lending Act for calculating the cost of a mortgage.

The APR takes the [interest rate](#), incorporates other fees associated with a mortgage, and is designed to give the consumer a single metric to assess the cost of a loan. However, the Truth in Lending law excludes some potentially costly fees from the APR calculation, such as charges for title searches and insurance.

The consumer bureau may propose incorporating other fees, including title costs, into the APR calculation, it said in the Feb. 21 advisory. Bureau spokesman Moira Vahey declined to comment on the changes.

Calabria, a former official at the Department of Housing and Urban Development, said the change would be consumer- friendly.

Title 'Cartel'

“If title insurance is part of the calculation, then lenders can negotiate volume discounts and push down the price that title insurers can charge,” Calabria said. “Right now, the rules let the title insurers maintain a cartel.”

A title insurance industry association said such a so- called all-in APR may lead to confusion for borrowers.

“We are also concerned that an all-in APR will hurt consumers’ incentives to shop for title insurance and mislead consumers about their costs in states where, by custom, the seller always pays the title fees, where the charges are split evenly between the buyer and seller and where the borrower pays the title charges,” Michelle Korsmo, chief executive officer of the [American Land Title Association](#) in Washington, said in a statement. “In addition, an all-in APR will also significantly reduce the availability of credit by pushing low-income borrowers into what are considered high-cost loans, which will raise the cost of credit.”

Consumer advocates have criticized the bureau’s draft mortgage forms, which they uses a graphic that that de- emphasizes the APR calculation in favor of the interest rate. That creates room for lenders to jack up fees that raise the total cost of a loan, said Andrew Pizor, an attorney with the National Consumer Law Center.

“They are improving the form on one hand and flushing it down the toilet by giving short shrift to the APR,” Pizor said in an interview.

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