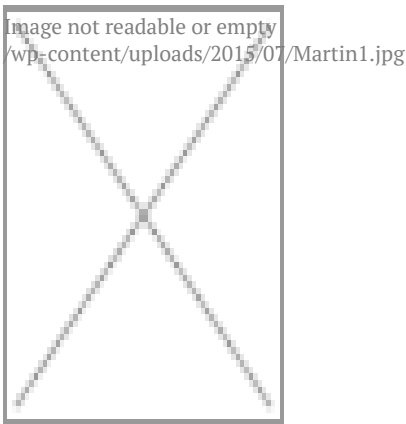


# What Borrowers Need to Know About Upcoming Home Loan Changes



**By Harris G. Martin, Bouhan Falligant LLP**

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New federal rules and regulations designed to help borrowers understand home mortgage information are scheduled to debut on October 3.

The upcoming changes are a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law five years ago. The law instigated the most significant changes to financial regulation in the United States since the reforms following the Great Depression. The law has impacted federal financial regulatory agencies and almost every part of the country's financial services industry.

Dodd-Frank established the Consumer Financial Protection Bureau (CFPB), in part to protect consumers from unscrupulous lenders. The CFPB recently published nearly 2,000 pages of new rules, regulations, and guidance implementing changes required by Dodd-Frank that affect home loans. Consistent with the overall goals of Dodd-Frank, these rules and regulations are intended to benefit borrowers by clarifying and reducing the number of documents required for home loans.

These new rules will create substantial changes in the real estate and lending world when they take effect, and homebuyers or owners looking to refinance their homes can expect several changes in the loan application and closing

process. Changes include the creation of two new forms: the Loan Estimate and the Closing Disclosure. The Loan Estimate, which consolidates two previously required forms, is part of the initial loan application process and will summarize the estimated costs and fees of the loan. Lenders must deliver the Loan Estimate to a borrower within three business days after the borrower applies for a mortgage.

The Closing Disclosure, or [CD](#) also consolidates two previously required forms and will reflect all actual costs and fees to be incurred by the borrower. The CD must be provided to a borrower at least three business days prior to the scheduled closing, where currently there is no timing requirement. To protect against a [rate lock](#) and [switch](#) scenario where the costs and fees at closing are substantially higher than a borrower expects, federal law requires the quoted costs and fees from the Loan Estimate to be the same, or close to the same, as those indicated in the Closing Disclosure. In some cases, lenders must pay the difference at closing if the costs are higher.

These newly-implemented changes should result in a number of borrower benefits and protections. First, the streamlining of required disclosure documents should provide more clarity for the borrower when reviewing closing documents. Second, the three-day waiting period after the Closing Disclosure will give the borrower time to review the final expenses of the loan and to ask questions prior to closing. Currently, borrowers might not see the final loan costs until closing. The three-day waiting period should eliminate unwelcome surprises when signing on the dotted line.

In spite of the benefits, a major drawback will be inconvenient and sometimes costly delays. Individuals applying for home loans after October 2 should be prepared for the loan transaction to take additional time, given the mandatory three-day waiting period. If certain loan changes are made during the initial waiting period a lender may be required to provide a revised Closing Disclosure, causing the borrower to endure additional three-day waiting periods.

Especially for homebuyers, delays in closing their mortgage can present many practical problems such as disrupting moving plans or even causing real estate contracts to fall through if a seller refuses to extend the contract closing date. Among other strategies, homebuyers may need to account for possible loan delays by ensuring the closing date in their contracts is far enough out.

In light of these upcoming changes, consumers should work with real estate professionals, including real estate agents, lenders, and attorneys, who understand the new guidelines and can help them successfully navigate the loan closing process.

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